

* MARKET REACHING REALISTIC PHASE *

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

OCTOBER 26, 1957

85 CENTS

NEW CHALLENGE AND OPPORTUNITY FOR AMERICAN INDUSTRY

By A. W. ZANZI

HOFFA THROWS DOWN THE GAUNTLET —WILL CONGRESS PICK IT UP?

By McLELLAN SMITH

STOCKS LIKELY TO PAY YEAR-END CASH OR STOCK DIVIDENDS

By HAROLD M. EDELSTEIN

Answering a subscriber's question

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**THE MAGAZINE OF
WALL STREET
and BUSINESS ANALYST**

Member of Audit Bureau of Circulations

Vol. 101, No. 3

October 26, 1957

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Cover Photo — Courtesy North American Aviation, Inc.

Photo page 135 — Courtesy Associated Press

Illustration page 150 — Courtesy Corn Products Refining Co.

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SUBSCRIPTION PRICE — \$20.00 a year in advance in the United States and its possessions. Pan-American, Canadian and Foreign Postage, \$3.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS — Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.

Cable Address — Tickerpub

ALL'S WELL THAT ENDS WELL

Proverbs always have endless numbers of applications. That's why they're proverbs. You might be surprised at how many of them apply to investing. For example:

Q. When is a good time to start investing? A. Never put off till tomorrow what you can do today.

Q. Why is it a good idea to invest? A. As you sow, so shall you reap.

Q. But what if I don't have much money to invest? A. Tall oaks from little acorns grow.

Q. Are all stocks good investments? A. All that glisters is not gold.

Q. Then how am I to decide where to invest my money? A. Look before you leap.

Q. Is it better to look for myself or to get some help? A. Two heads are better than one.

Q. Where can I get investment help? A. There's no proverb that covers this one, but you can always turn to —

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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

A ROSE BY ANY OTHER NAME . . . The Administration, butting its head hard against the statutory debt limit of \$275 billion, and beset with the need to meet the Government's current financial obligations, came up with a gimmick last week for borrowing \$750 million without increasing the National debt. Treasury officials dug deep into their bag of tricks and found a \$1.7 billion figure owed to the Treasury by the Federal National Mortgage Association (Fanny May)—and promptly induced that organization to go into the market to raise the much needed \$750 million.

It seems that when Fanny May was chartered by the Congress in 1954, the Treasury advanced over \$2 billion to finance its secondary market operations. Furthermore, under the original charter, Fanny May was empowered to go into the public markets to raise money for repayment of its Treasury obligations.

Back in January, 1955, the Treasury called in \$570 million of these funds, but there have been no additional calls since that time. But then the cost to Fanny May, and ultimately to the tax-payer, was considerably less than it is today. The new obligations which Fanny May is now floating will bear a 4 1/8% coupon and will mature in 8 months. The Treasury by this move seems to be giving us a lesson which might be entitled "when is a debt limit not a debt limit?" But it is imperative that we be aware of this policy of using expedients and the dangers it holds for the stability and soundness of our national finances.

NOTICE:

We want to make clear that we are not in agreement with Mr. E. George Schaefer's prognosis of the market outlook, as contained in his advertisement running in this issue. And we advised him that we would say so when we agreed to accept his advertisement, which we are running in a spirit of fair play—believing that he is entitled to his opinion—as we are entitled to ours. C. G. Wyckoff, *Publisher*

Obviously, the Treasury hopes to pay this money back to Fanny May before the end of the current fiscal year so that the whole transaction can be wiped out and not provide political ammunition for dissident Congressional elements when the 1959 budget is being considered. But—and this is an important *but*—the Treasury is under no obligation to do so. And, in fact, Fanny May may be forced to "roll over" this new issue next June, replacing it with new securities. Should that happen, incidentally, the Treasury will show a \$750 million receipt on its books this year which would be included in budgetary surplus, but will in fact be no surplus at all. In essence, all the Treasury would be doing is transferring funds from one pocket to the other. But the transportation costs of this circuitous financial route are high indeed under today's tight money condition, some 4 1/8%.

What is even more disturbing about this latest Treasury move, however, is that there is no telling how far it may go. Various other public corporations—the Commodity Credit Corporation, Federal Home Loan Bank, Federal Land Bank and the Federal Intermediate Bank, to name a few—also owe substantial sums to the Treasury and are empowered to pay them back by raising money in public markets. No figures are readily available as to just how extensive this pool of funds outside the debt limit is, but informed sources express no doubts that it is far in excess of any moneys the Treasury might need for the balance of this year. As a matter of fact, a few years (Please turn to page 188)

BUSINESS, FINANCIAL and INVESTMENT COUNSELLORS : 1907—"Our 50th Year of Service"—1957

As I See It!

By CHARLES BENEDICT

THE PEOPLE OF THE WORLD ASK FOR BREAD — AND RUSSIA OFFERS THEM A TRIP TO THE MOON

In the excitement of the moment we were thrilled with the adventure into the unknown when Russia announced the launching of the first world satellite.

But only for an instant. When we got back to earth we remembered that this accomplishment had been achieved at the expense of — and without consideration for the needs and wants of her own people. Nor did she offer anything of substance to the other economically backward peoples of the world. First things should come first.

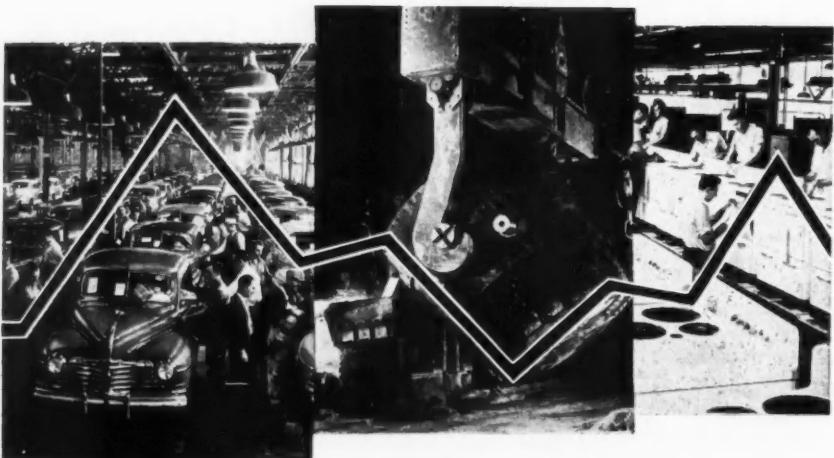
"Sputnik", which in a rough translation means "fellow-traveler", was a costly flash in the pan — a plaything of science. And we should have exploited the situation then — and still can — by calling attention to the American way — which concentrates first on the well-being of human beings, and spends only a portion of our wealth on scientific research and adventure. And of first importance is the fact that our research is coordinated with a vast program to uncover elements and forces that will continue to produce the necessities of life for our own people and the rest of the world. Our goals are those of a peace-loving nation, while the clique in Russia is thinking in terms of world conquest.

After the first flush of excitement, I wonder how the news was received by the Russian people, whose supply of food is at a meager level — who live in cramped quarters which they share with two or three other families due to lack of proper housing — who wear drab, shoddy clothing and are short of necessary products for decent living because of the lack of consumer goods.

As one who has traveled in Russia, I can almost hear their small talk and their flashes of sardonic humor as they discuss "Sputnik". For the Russians are a practical people, and it must have been rather heartbreaking for them to learn that the ruling clique at the head of their government was not thinking of their needs and wants, but instead was spending their money on adventures into space that pose a threat of destruction to the people of the world, including the Russians themselves.

The Kremlin's pretensions have always been slanted so as to make humanity believe that the Soviet system, called Communism, is designed to uplift and raise the standard of living for the millions of human beings existing on a subsistence level.

In launching the "Sputnik", the Soviet propa-



gandists overreached themselves and have clearly shown that all they want to accomplish is to exploit the people of the world to further their grandiose ambitions for world control — if necessary at the expense of the destruction of the rest of the world.

Even the man in the street can recognize this truth if we present this evidence to people everywhere. And it should be done now, to spike the Kremlin's use of "Sputnik" diplomacy to threaten destructive war unless her demands are met. Just now she is concentrating her efforts on the Middle East, and hopes by this means to succeed in securing a joint frontier with Syria through the elimination of Turkey. By this power-play she intends in one fell swoop to gain domination of the Middle East and to play a cat and mouse game with the Western oil interests in that area; hoping to wring from them concession after concession — politically — financially — territorially — economically!

Khrushchev is pursuing the Molotov technique. But Molotov is now somewhere in outer Mongolia, and Khrushchev is no Molotov — as was recently demonstrated in his ill-conceived appeal to the socialists of the various European countries, who turned him down flat. If we are to take this refusal to be a contemptuous reaction to Khrushchev's crude "Sputnik diplomacy", then he might well be in for a lot of trouble. (And with that thought in mind, the possibilities of "Sputnik" grow on one, when you play with the idea that it could have been inadvertently created for the purpose of establishing a more remote spot to which "comrades" who had-fallen-from-grace could be sent.)

But, seriously, despite the shrill, strident bombast, the prospect of war with the Soviet Union does not seem to be imminent, even though, to quote an anonymous punster, "Mr. Dulles is a confirmed 'brinker' and Khrushchev a heavy drinker" — the former caught in the cold sea of indecision, and the latter propelled by a zealot's fire for survival.

Fact is, what we are experiencing is a new bombardment of the psychological warfare in which the Soviets are so expert. That is all — although I should add that logical reasoning is not a sound premise for dealing with the abnormal thinking of frustrated and violent dictators.

But one thing is clear. In any aerial war Khrushchev, et al, have definitely in mind that the chances of destruction are just as great for the Soviet Union as they are for the United States.

Moreover, they have other things to worry about. The problems of securing the borders of their vast territory — and the knowledge too that their calculations must reckon on sabotage from the enslaved people under their domination.

But we cannot, and will not ignore the Russian threat, and are going to spend plenty of money to speed up our outer-space program, if for no other reason than that "Sputnik" has aroused us to a full realization of the Kremlin's implacable hate. And we should be able to accomplish our purpose, with-



Muscle man

out the economic disaster that the Russians are hoping to maneuver us into — and still continue our scientific research in the service of mankind.

And this is important — because during the coming year millions of people in Red China and India will face the danger of starvation, and there are other millions around the world living below a subsistence standard who urgently need all the help we can give them to survive.

The people in our own country have not been neglected — on the contrary, they have been spoiled. Our standard of living is so high that it has reached the "gadget age" — something we can well do without. We are in a position, therefore, to spend our money for more useful purposes without any real sacrifice. Already science has increased the span of life in the United States to 68 years for men and 70 years for women, while in other countries life is so difficult that the span of existence is limited to 36 years and even less. It will be hard for Americans to realize that despite the great advances in this modern age, women in India are old at 30.

Looking ahead, the rapidly multiplying population poses a serious question — so that unless science concentrates on the task of producing food and the necessities of life for our own people — for all the people — prospects for survival are dismal indeed.

There is so much to be done to insure the future of mankind. Of immediate urgency, in our own country, is the need for solving the water problem, which has already reached a critical stage — and we must find ways and means for saving large sections of our land where the draining of water and oil from underground areas, as in California, is causing the earth to sag badly. A recent report tells of \$100,000,000 damage in the Los Angeles area done by the sagging of the earth surface.

It seems to me that we must set to work seriously to prevent our world from leaving us. After that — a trip to the moon might be fun.

Market Reaching Realistic Phase

Market prospects remain clouded and dubious, with more tax selling ahead. Completion of the latter should provide technical basis for a year-end recovery, but a real reversal of trend will take time, requiring more light on 1958 business and earnings. We prefer cash, and raising more of it on rallies, to buying stocks. Few equities appeal to us here.

By A. T. MILLER

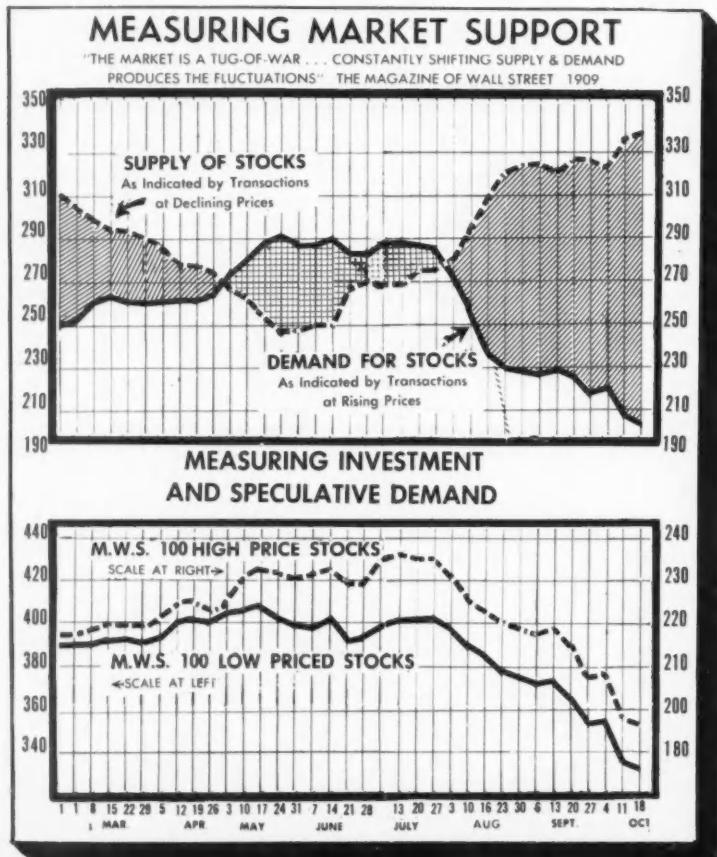
The stock market's downward trend was extended over the past fortnight, leaving the question of where it might halt—either finally or for a perhaps sizable year-end recovery—no less conjectural than heretofore. Compared with the almost straight-line decline for some weeks to late August, footing up to nearly 51 points for the industrial average, the retreat has subsequently been more irregular; but the recurrent rallies were quickly snuffed out, serving only to break the monotony of falling prices. There was another temporary selling climax, with heavy trading volume, late in the week ended October 11, followed by another small and

brief rally, which was more than extinguished by renewed pressure up to last week's close.

The industrial average broke its February low of 454.82 in decisive fashion on an October 7 plunge. Rails had knifed through their February bottom of 139.23 as early as August 23. You don't need the hocus-pocus of "Dow Theory" to recognize that a downtrend has been "reaffirmed" and extended. With the rain falling, you need only eyes to see it. But there is no "theory" or technical gadget which can tell you where the market will go from here. Thus, the downtrend from the 1956 highs was "reaffirmed" last February 11, when industrials followed rails to a new low; and was extended moderately for one day, prior to a five-month rise which took the industrial average back to within a thin hair of its 1956 April and August tops. However, the present altered environment argues against any surprising reversal. It is prudent to assume that the existing trend will go further, and fruitless to speculate on the question of how much. It could be small, moderate or considerable. Only time will tell. As heretofore, we say: Wait and see.

Investment Morale Is Low

It may be that the market's retreat, stemming from the summer excess in valuations coupled with increasing doubts about the business outlook, would have been extended anyway, but it has certainly been accentuated by recent developments. They include Russia's feat in launching man's first earth satellite, implying frightening Communist progress in missiles; the deplorable events at Little Rock; the Communist-manufactured "tension" between Turkey and Syria, with Moscow's accompanying war-threat talk and cocky blustering. Throughout the world, the prestige of, and confidence in, U. S. leadership have taken a beating. At the same time, "the fourth-quarter business upturn"—which many had earlier expected or hoped for—has definitely fizzled. On all counts, investment



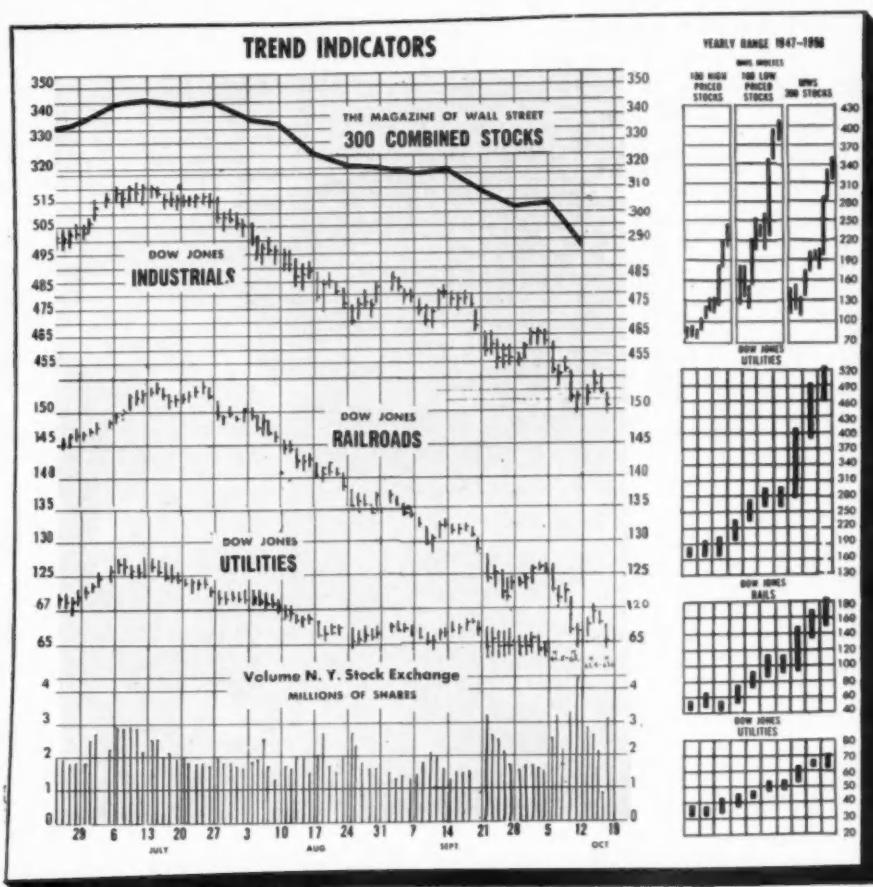
morale is low; there is increased uncertainty; there is more apprehension.

The decline to date has amounted to nearly 17% for the industrial average in little over three months, taking it back to the lowest level seen since June, 1955; and extending the February low by some 21 points or about 4.6%. Rails are off around 26% from their July recovery mark and 36% from the 1956 bull-market top. The level is the lowest in more than three years. Along with most safe-income stocks, utilities show tentative indications of either levelling out or of contesting the market's drag-down pressure more stubbornly. The average has fallen over 13% from the bull-market top attained in May of this year; and is a fraction under its October, 1956, low point.

The "adjustment" has already exceeded any proportion which could be called small. Well, then, might it be big or moderate in the ultimate reckoning? If you think that "big" means anything like the 1932-1929 crash, that can be ruled out for reasons too clear and numerous to merit debate. But "moderate" applies to a fairly broad range of stock prices. The 1953 decline of 13% in the industrial average over a period of eight and a half months—allowing for the Federal Reserve's tight-money policy of that time and discounting the mild 1953-1954 business recession—has been exceeded in a much shorter time. The twelve-month 1948-1949 decline of 16.3%, discounting moderate business recession, has been slightly exceeded.

The sharpest fall in the postwar era to date (23% for the industrial average) was seen in 1946. It was unusual in two principal respects: (1) It was partly a penalty for 1945 and early-1946 over-speculation in "cats and dogs", whereas no comparable speculative excess preceded the 1956-1957 highs; and (2) it allowed for some "coming postwar depression" which did not come. It was completed for the industrial list in little over four and a half months, with by far the largest part of it concentrated in about five August-September weeks. Going farther back, there was the dreary 41% decline in about 29 months to April, 1942, stemming from U. S. involvement in World War II and without any normal relationship to the trend of economic activity; and the 12-month 1937-1938 fall of 49.1%, related to fairly serious, but not protracted, depression, marked by shrinkage of some 35% in industrial production from high to low month, with severe impact on corporate earnings.

TREND INDICATORS



Based on the present pros and cons, we doubt that more than a moderate business recession may be in the making; but no one can say with assurance that recessions more important than those of 1948-1949 or 1953-1954 have been ruled out. Nor can any one say that market declines on the order of that of 1946, or even somewhat larger, can be ruled out, whatever the time factor. It depends only partly on what's ahead for business and corporate earnings. It depends more on investment psychology. Based on the criteria of price-earnings ratios of "good stocks", dividend yields and the relationship of the latter to bond yields, there was more "investment excess" at the 1956 and 1957 highs than at those of mid-1948 or early 1953. That suggests relatively more vulnerability to any given degree of recession in business and earnings.

Market Ahead of Business

The over-all business statistics changed little during the market's February-July rise. They have not changed greatly during the subsequent fall to date, although some key indicators—plant-equipment outlays, manufacturers' new orders and retail trade, among others—are pointing slowly downward at present. It means nothing that the market decline has run ahead of deterioration in business. Declines always do. They can be "wrong", as in 1946; but that is a rare exception. Usually they prove "right" in a general way; *(Please turn to page 188)*

General Electric experimental physics laboratory (center) will house a critical assembly for mocking up various types of reactor cores, a nuclear test reactor (NTR) for measurement of nuclear properties and for calibrations, a core assembly room and laboratory space.



A New **CHALLENGE** and **OPPORTUNITY** for **AMERICAN INDUSTRY**

By A. W. ZANZI

The energy released by the fission of a single uranium atom is 200 million electron volts. This simple truth contains both the promise of a better future for humanity and the more immediate prospect of extensive markets abroad for this country's nuclear reactors. While these glittering sales opportunities have been lingering just over the economic horizon for several years, a whole host of political and economic events have recently conspired to shrink the distance between an attractive possibility and a market reality.

First, the Suez crisis shattered Europe's placid confidence in the ready availability of Middle East oil. This in turn injected a new note of urgency in Europe's plans for coordinating atomic power development. As a result the gestation period of the European Atomic Energy Community was drastically reduced and Euratom was delivered with the charge of fostering nuclear power development in Belgium, France, Germany, Italy, Luxembourg and the Nether-

lands. The interruption of the flow of oil through Suez and Syria necessitated expensive shipments around Africa and raised the cost of coal and oil in Europe to a point where power costs of new plants using conventional fuels became 50% to 100% higher than in the United States. Europe's foreign exchange resources were further strained by the growing fuel requirements of her burgeoning industries and power plants. A less expensive alternative to imported petroleum and coal became an economic imperative. Atomic power programs in all principal European nations were speeded up. For example, the United Kingdom announced that she would treble her 1955 plan for nuclear power plant construction in the coming decade.

Europe's growing consumption of energy is unquestionably one of the most impelling motives for the vigor with which atomic power resources are now being explored. Most experts predict that Europe's energy needs will almost double by 1975.

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This suggests that the Continent's fuel consumption—in terms of metric tons of coal—will increase from the 1954 level of 760 million tons to about 1.4 billion tons within twenty years. This 84% gain reflects the assumption that the cumulative rate of growth of Europe's energy requirements will approximate 3% per year. Until the Suez crisis and continued unrest in the Middle East forced a revision of the entire European power program, it had been expected that petroleum would be Western Europe's preponderant source of energy during the next twenty years. Coal was to cease to be the mainstay of Europe's economy. By 1975 the Continent was to derive only 43% of its energy from coal, compared to about 70% today. Oil and natural gas was to provide some 41% of Europe's energy needs, as against only 18% at present. Hydroelectric power was to account for 11% of total requirements while atomic reactors were assigned the relatively insignificant role of furnishing the remaining 5% of Europe's energy needs.

But political uncertainties in the Middle East and foreign exchange shortages in Europe have induced many nations to assign a more prominent role to the atom and to correspondingly downgrade the contributions of coal and petroleum to Europe's total fuel pool. By 1962 Europe's oil imports will be stabilized at 30% of total energy requirements. Euratom nations now propose to install 15 million kilowatts of nuclear power capacity by 1967 at a total cost of about \$6.4 billion. The heightened importance which Europe now attaches to nuclear power is seen in the fact that this program will cost about \$4 billion more than the same amount of conventional power capacity. West Germany intends to build about 10% of Euratom's total goal of 15 million kilowatts, despite earlier plans calling for a nuclear development program of only one third that size. Italy will construct 500,000 kilowatts of atomic power capacity during the same time, but there is a good chance that this goal will be raised. The new five-year atomic plan recently approved by the French National Assembly—which does not include all French efforts in the nuclear field—has set an objective of 2.5 million kilowatts of installed capacity by 1965 and 4 million kilowatts by 1967. The accelerated British program calls for atomic power plants producing 6 million kilowatts of power in the United Kingdom by 1965. Japanese officials are talking of a target of one million kilowatts of nuclear-generated power by 1965 and 10 million by 1975. Russia's more modest schedule envisages 2.5 million kilowatts of electrical capacity from nuclear sources by 1960.

While only a portion of these energy requirements will be produced with equipment made in the United States, these goals nevertheless add up to substantial markets abroad for this country's atomic reactors and related products. Experts here have

estimated that within ten years about 10 million kilowatts of electric power will be generated overseas by nuclear plants based on U.S. designs. Most of these units will be well above 100,000 kilowatts in size and will be of the American PWR/BWR type, as distinct from the British Calder Hall design. There seems to be general agreement that about 7 million kilowatts, or one half of the nations' projected nuclear installations, will be based on U.S. technology. This will provide new markets for this country's manufacturers of nuclear equipment, fuels, components, and other equipment which cannot be manufactured in Europe in sufficient quantity.

In terms of dollar volume, nuclear reactors and atomic equipment could become one of our leading export categories. For example, France has mapped expenditures of \$1.1 billion during the 1957-1961 period. In addition, the French national utility—Electricité de France—will spend about \$285 million on its own atomic power centers during the next five years. The Netherlands has budgeted \$684 million for its 1962-1965 nuclear program. Nor are these outlays confined to Europe. Venezuela plans an initial investment of \$50 million in nuclear facilities. Argentina proposes to build a 280,000 kilowatt nuclear power station in Buenos Aires at a cost of \$80 million. Brazil has already signed contracts worth \$18.75 million for two reactors of 12,500 kilowatts each to be installed by the Martin Co. in the Brazilian state of São Paulo. Substantial expenditures in this field are also contemplated by India, Japan, Spain and Sweden.

The vastness of these markets and the fact that atomic technology is no longer a U.S. monopoly suggests that other nations, notably Canada and England will vie with our manufacturers for export leadership in this field. In fact, Britain is already well ahead of the United States, according to the *Financial Times* of London. British firms, says the

Estimated Free World Requirements for Nuclear Power
(In millions of kilowatts)

	1955 Conventional power capacity	Nuclear power capacity	
		1965	1980
WESTERN EUROPE			
Euratom nations	47.7	2 to 8	60 to 75
United Kingdom	27.3	5 to 6	50 to 66
All others	26.3	0.5 to 1	5 to 15
	101.3	7.5 to 15	115 to 156
ASIA			
Japan	14.5	0.5 to 1	9.5 to 15
India	3.2	0.1 to 0.5	1.5 to 3
All others	2.9	0.2 to 0.5	0.5 to 1.5
	20.6	0.8 to 2	11.5 to 19.5
AFRICA			
	5.5	0.2 to 0.5	1.5 to 3
NORTH AMERICA			
United States	130.9	1.5 to 4	60 to 227
Canada	12.7	0.5 to 1	5 to 15
All other	3.3	0.1 to 0.5	0.5 to 1
	146.9	2.1 to 5.5	65.5 to 243
SOUTH AMERICA			
Brazil	3	0.1 to 0.5	2 to 3
All others	5	0.1 to 0.5	2 to 3
	8.0	0.2 to 1	4 to 6
OCEANIA			
	4.5	0.2 to 0.5	1 to 3
FREE WORLD TOTAL			197.5 to 430.5

Times have sold or are negotiating the sale of plants in Australia, Italy, Germany, Japan and two units in Germany, worth a total of \$151 million. At the same time this country is credited with six sales or solid prospects in Belgium, Brazil, Cuba, Dominican Republic, Italy and Mexico. The value of these contracts is placed at \$56 million. One joint Anglo-American sale was made to West Germany. However, the same survey gives this country a 21-to-6 lead in shipments of research reactors. British manufacturers expect foreign nuclear plant orders to reach about \$540 million by the end of 1958, \$840 million by 1960 and \$1.4 billion by 1965. Main markets will be in Germany, Italy, Japan and Holland. But American manufacturers are expected to profit indirectly from England's cultivation of these outlets inasmuch as Britain will be able to meet demand for smaller power stations (of less than 20,000 kilowatts) only by buying rights to U.S. power plants until new British designs become available.

The friendly rivalry which is developing in the field of international atomic power between this country and the United Kingdom is symbolized by the British Calder Hall gas-cooled reactor and the American pressurized-water reactor (PWR) of Shippingport, Pennsylvania. The United Kingdom is confident that Calder Hall has given English manufacturers a sizable lead in the peaceful use of nuclear power. London proposes to maintain this initial advantage for at least a decade by effecting further improvements leading to higher gas temperatures and greater efficiency. On the other hand, Americans believe that future trends will enhance rather than diminish the value of reactors using enriched uranium and thus give them a competitive edge over reactors, such as Britain's Calder Hall plant, based on natural uranium. Inasmuch as efforts in this country have centered so far on the development of reactors using uranium (U-238) enriched with a high proportion of Uranium 235, manufacturers here naturally anticipate that any trend toward enriched types would give the U.S. an advantage over the British in export markets.

The trouble with this view is that no such trend is as yet evident. Moreover, one of the most striking conclusions of Euratom's Armand-Etzel-Giordani study group is that there is little or nothing to choose today between the cost of power from American and British reactors. In addition, a panel of five U.S. nuclear experts has released an analysis which supports the view that natural fuel can hold its own in the atomic power race and that arguments over the merits of slightly enriched versus natural uranium reactors are now pretty much academic.

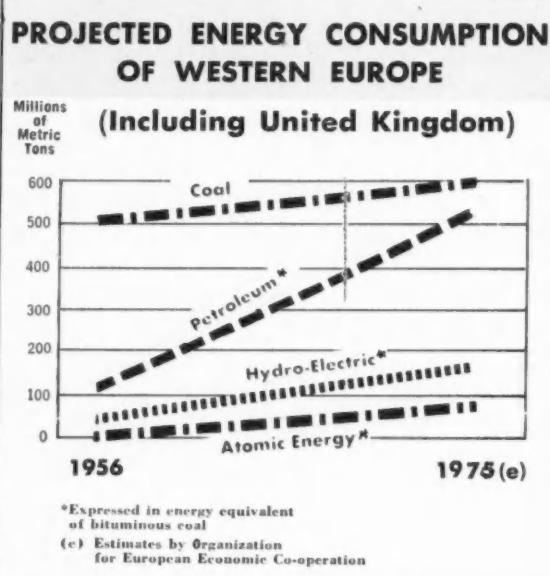
Nevertheless, conflicting claims over the relative merits of these reactors have not been completely laid to rest. The reasons for this frequently transcend the economic and impinge not only on questions of relative energy costs but also on regional development plans, balance of payments, capital formation, foreign loans and local availability of resources. Moreover, these comparisons are limited to a few reactor types and ignore the consideration of the future impact of the more dramatic breeder reactors as well as the potential of the Plasma reactor which converts fission energy directly into electricity.

Relative energy costs will unquestionably play a prominent role in the selection of reactor types as well as in the initial decision to expand atomic power facilities. Coal is expensive in Western Europe and in Japan and the cost of extracting it has been rising steadily as reserves have been depleted. Countries which have been traditionally dependent upon coal have been forced to resort to fuel imports at alarmingly high rates. As a result they have encountered severe balance of payments problems while at the same time the gap between conventional and atomic energy costs has steadily narrowed and, in some countries, is shifting in favor of the latter. For example, Britain's Sir Christopher Hinton predicts that nuclear power stations in England will produce power by 1980 at half

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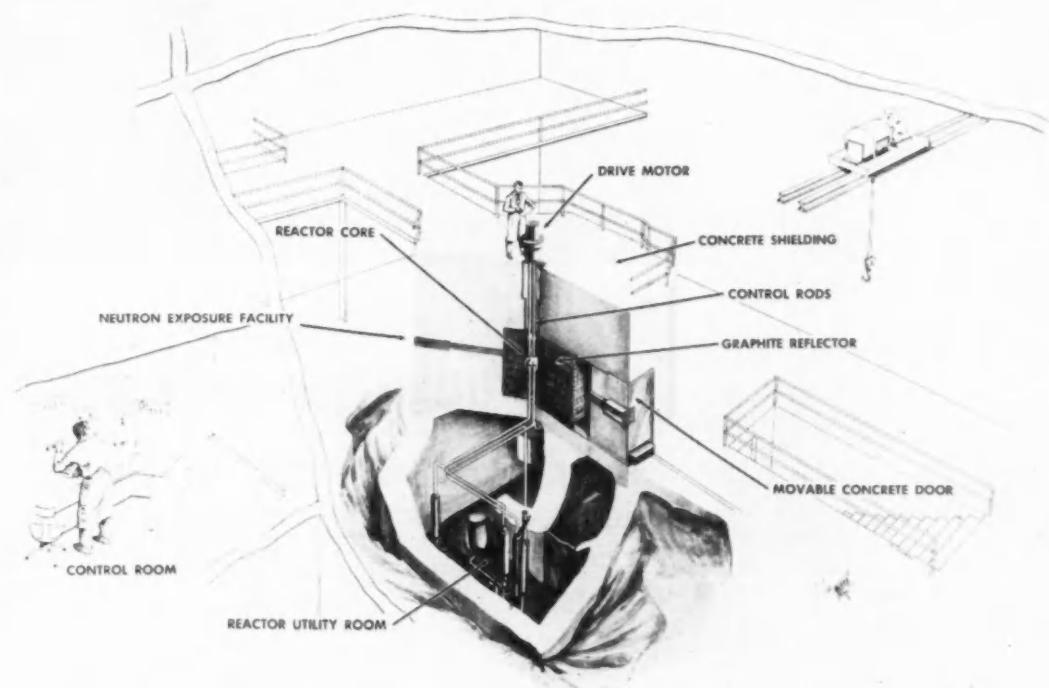
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the cost of energy generated by conventional plants. John D. Cockcroft, director of the Atomic Energy Research Establishment at Harwell, claims that "In Britain nuclear power is likely to achieve parity with oil and coal power by 1962 and thereafter will be cheaper".

The Costs of Atomic Energy

Relative costs of fuels will have, of course, an important bearing on the scope of nuclear power programs abroad and, consequently, on the size of the markets for U.S. nuclear equipment. A pound of natural uranium, when converted completely into nuclear fuel, is the equivalent of 1,250 tons of bituminous coal. If one considers that relatively pure natural uranium may cost little more than \$20 a pound, an equivalent amount of coal at \$14 a ton would cost \$17,500. Even if the cost of coal were to be reduced to \$8 a ton, nuclear fuel would be considerably cheaper than coal on the basis of relative kilowatt-hour of energy yield. The economic significance of this calculation becomes even more striking when one considers that Europe has paid as much as \$24 a ton for imported U.S. coal. Moreover, the cost per unit of energy of transporting atomic fuel



Artist's sketch of the first nuclear reactor for private industrial research, to be located underground and shielded by five feet of dense concrete.

would be negligible. Thus, the use of nuclear fuel would tend to equalize the cost of fuel throughout the world.

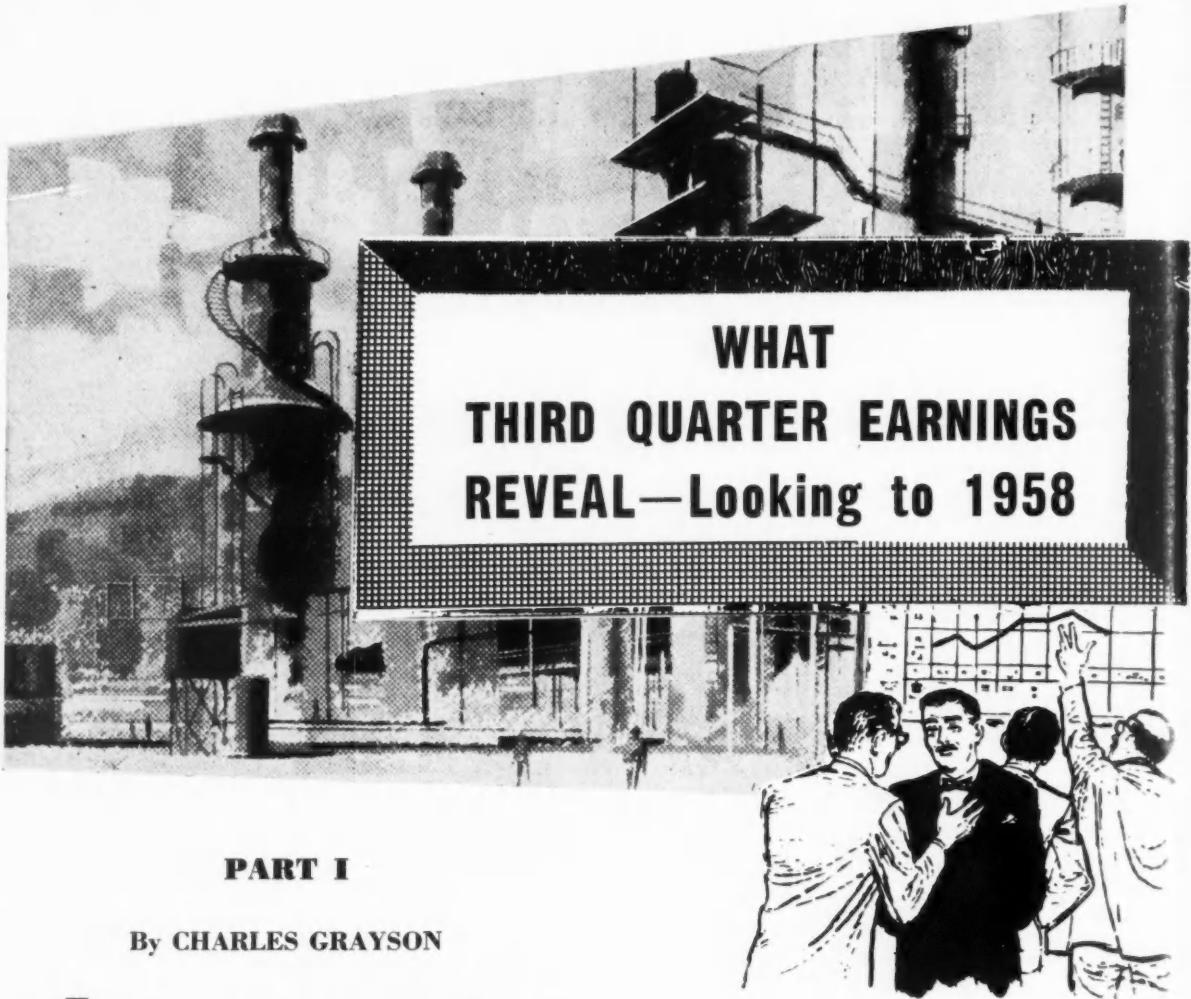
The Cowles Commission has produced a study which indicates that an atomic station with a capacity of 75,000 kilowatts operating at 50% of capacity would produce electricity at a cost ranging between 4 mills and 10 mills per kilowatt hour. A more recent analysis reveals that power produced by the Calder Hall natural uranium plant costs 8 mills per kilowatt hour, while a PWR unit of the American type, using enriched uranium and constructed in the United Kingdom, would generate electricity at a cost of 13 mills per kilowatt hour. The same study makes the further claim that "based on fairly reasonable assumptions, it is likely that atomic power costs will eventually achieve the 7-mill range". Thus, American reactors of the PWR type would definitely be at a disadvantage in Great Britain and in other nations with similar resources, fuel import requirements and cost structures. Elsewhere, the Calder Hall reactor maintains this advantage although the gap is narrowed considerably by local circumstances. In Japan, for example, the estimated power cost of a 90,000-kilowatt generating station of the American PWR type has been found to be 21.8 mills per kilowatt hour. The corresponding cost for a Calder Hall reactor of the same type is estimated at 21.0 mills per kilowatt hour.

However, the choice of reactor type is also affected by the initial capital investment required. Considerations of this nature are important to all countries, especially those experiencing severe foreign exchange difficulties. They are equally vital to underdeveloped nations whose capital resources for in-

dustrialization are pitifully small in relation to their immense needs. In this respect, the advantage lies with this country's PWR reactors. The Calder Hall design is a low-pressure reactor with high construction costs and low fuel-cycle charges. Improved models of the Calder Hall plant to be built in Great Britain will cost about \$425 per kilowatt of capacity for a 90,000-kilowatt unit. Larger reactor stations would cost only \$310 to \$350 per kilowatt of installed capacity. On the other hand, the Shippingport PWR reactor has a much lower construction cost. A generating station of this type built in Great Britain would cost approximately 50% less than the Calder Hall design. This relative advantage would be retained in many other nations, although the large variety of exchange rates in controlled-currency countries may inject an additional complication and significantly affect the cost of imported equipment, especially from the U.S.

One factor which may have considerable weight in swinging a larger share of foreign markets to American reactor manufacturers will be the availability of adequate supplies of enriched uranium from this country. The U.S. has already made available 100,000 kilograms of uranium, currently valued at \$1,700 billion. And it is almost certain that this country will continue to make available additional quantities of fissionable materials to foreign reactor stations in keeping with Washington's pledge to support the worldwide "Atoms for Peace Program". Moreover, it is probable that some foreign countries, such as Brazil, will find it expedient to trade their supplies of thorium or natural uranium for enriched uranium from this country. This practice would, at least in some cases, offset the

(Please turn to page 179)



PART I

By CHARLES GRAYSON

The first nine months of this year have been characterized by rising prices and a leveling off in business activity, which have caused some concern and uncertainty. The volume of defense spending, perhaps the major question mark at this juncture, which was scheduled in the President's January budget message at \$38 billion for the fiscal year ending June 30, 1958, has been running in recent months at an annual rate of over \$40 billion. Consequently, in an attempt to get military expenditures below the \$38 billion level, reductions and stretch-outs have been ordered in personnel, military construction and maintenance, and it seems also in many segments of military equipment, including the aircraft and missile programs. The uncalled-for appearance of "Sputnik", however, may bring some change in military expenditures. In any event, despite efforts of both the Administration and the Congress to contain federal spending, total Government outlays continue at even higher levels than envisioned by the President this past January.

Business expenditures for new plant and equipment are rising at a considerably slower pace this year, and seem to be leveling off at an annual rate of \$37 billion, a 6% or a \$2 billion increase over 1956. Although final figures are not yet available, spending in the third quarter by the governmental

sector of the economy was about \$7 billion ahead of last year's rate. During the 4th quarter, however, business expenditures on plant and equipment are expected to decline slightly, the first projected drop since the first quarter of 1955. Capital expenditures by the major industries continue mixed during this year. Outlays by the public utilities—electric, gas and communications, are expected to set a record of almost 30% above last year's investment in heavy equipment. Railroads and manufacturing firms are expected to increase last year's outlays by roundly 18% and 8% respectively, but trade, service and construction firms forecast 8% lower fixed investment spending.

Housing starts are running much below 1955's record rate, although the 1957 figures have been inching ahead, with August being the first month this year when the annual rate of starts exceeded the 1 million level. Although new home starts this year will most probably fall below last year's 1.1 million, the dollar value of total construction, including commercial, industrial, public and residential, should exceed last year's total by some \$1.4 billion to reach a new peak of about \$47.5 billion.

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Quarterly Income Account Comparison of Industrial Companies

	3rd Quarter 1957			2nd Quarter 1957			1st Quarter 1957			3rd Quarter 1956		
	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share
Alco Products	\$ 41.7	2.5%	\$.58	\$ 35.3	.05%	\$ 1.03	\$ 45.3	1.1%	\$.26	\$ 42.3	2.0%	\$.46
Allied Chemical & Dye	171.8	6.2	1.09 ¹	183.6	6.5	1.22	165.8	6.0	1.01	156.8	6.0	.96
American Encaustic Tiling	.....	.49	3.3	10.7	.....	.52	2.4	8.5	.30	2.8	10.7	.45
Bell & Howell	.....	1.18	.....	.....	.35	.....	.....	.....	.28	.....	.....	.92
Continental Steel	9.3	5.7	1.06	13.2	7.7	2.04	11.1	5.9	1.32	10.2	5.9	1.21
Diamond Alkali	32.4	4.5	.55	34.2	7.0	.90	30.9	7.3	.84	31.2	7.5	.90
Diamond T Motor	15.5	1.8	.70	13.9	1.6	.53	9.4	1.7	.40	9.9	3.2	.77
Dow Chemical	166.3	8.5	.56	165.4	9.1	.62	154.9	8.6	.54	162.4	7.2	.48
Eagle-Picher Co.	27.8	3.2	.91	30.4	3.4	1.05	31.8	4.3	1.36	26.9	5.1	1.36
Ex-Cell-O Corp.	41.7	8.3	.96	44.2	8.9	1.09	43.9	9.8	1.16	40.6	10.2	1.18
General Electric	1,047.9	5.2	.63	1,072.4	5.9	.73	1,048.8	6.1	.73	1,003.8	4.7	.55
General Instrument	8.1	2.0	.12	7.0	1.1	.06	7.0	.6	.03	8.3	1.4	.09
General Tire & Rubber	105.1	2.5	.48	110.4	2.3	.48	95.4	3.4	.65	100.3	2.0	.42
Hercules Powder	63.2	.....	.59	63.8	7.2	.55	60.8	6.7	.48	57.1	6.9	.48
Hoover Electrochemical	26.1	7.1	.28	27.9	8.6	.36	25.8	8.5	.33	26.9	8.1	.33
International Bus. Machines	.....	1.93	.....	.....	1.85	.....	.....	.....	1.78	.....	.....	1.65
Lehigh Portland Cement	18.4	7.9	.35	22.0	13.1	.76	11.8	10.7	.33	22.4	14.2	.84
Merch & Co.	47.2	12.5	.56	46.3	12.8	.58	45.0	12.8	.55	42.5	12.2	.49
Monsanto Chemical	139.6	6.3	.41	145.8	7.2	.50	151.2	7.6	.54	127.1	5.3	.32
Mueller Brass	15.0	2.2	.61	14.6	3.2	.84	14.2	3.6	.93	14.8	3.8	1.01
Plough, Inc.	7.0	8.7	.50	14.0	5.2	.60	6.3	5.0	.28	5.8	4.5	.24
Rockwell Spring & Axle	59.8	4.3	.54	69.9	5.8	.86	75.6	5.9	.95	49.4	2.1	.22
Rohm & Haas	42.0	7.8	3.12	46.9	8.8	3.94	43.9	9.3	3.88	39.0	8.4	3.11
Shamrock Oil & Gas	13.4	14.2	.55	14.2	13.7	.57	14.5	18.0	.76	14.0	18.0	.48

—Deficit.

¹—Excludes net gain of \$0.78 per share on sale of U.S. Steel stock.

In the fourth quarter business activity is expected to ease slightly, although consumer buying of goods and services should continue to rise. There is little chance of any important decline in federal spending during the next few months, and state and local government expenditures should continue their advance. Furthermore, although down fractionally from the third quarter, business expenditures for plant and equipment are expected to continue.

Profit Squeeze Hurting Corporate Earnings

During the first half of this year, aggregate corporate earnings ran slightly ahead of last year's levels, following closely the overall measure of economic activity in that period. The combined net income of 740 industrial corporations in the first six months of 1957 showed a gain of 6.2% over the corresponding period last year, which however

reflects higher prices rather than physical volume. Also these favorable results were strongly influenced by some non-recurring benefits, among them the petroleum industry's sharp gains in sales and earnings stemming from the Suez crisis. Without the weight of the oils, combined net income for the first half of 1957 would have been only 1% ahead of the corresponding period in 1956.

The oils were not alone in showing higher profits. The aircraft industry and electrical products notched sharp gains. However they may not fare so well in light of restudying of defense spending. The amazing performance of Chrysler not only boosted that industry's results, but helped the automobile suppliers as well. Also, the trend of automation gave a big lift to the office equipment group. But despite the general prosperity in the first half of the year, ground was lost by a surprisingly large number of industries, as the higher cost of doing

Quarterly Earnings Record of Leading N. Y. City Banks

	Net Operating Share Earnings						Recent Price *	Indicated Div.	Yield
	3 Months Ended March 31	1956	1957	3 Months Ended June 30	1956	1957			
Bank of New York	\$ 5.31	\$ 6.27	\$ 5.25	\$ 6.11	\$ 5.70	\$ 6.03	293	\$ 12.00	4.0%
Bankers Trust Co.	1.20	1.31	1.17	1.36	1.23	1.32	60	3.00	5.0
Chase Manhattan Bank	.....	.....	1.91 ¹	2.06 ¹	1.05	1.03	46	2.40	5.2
Chemical Corp. Exchange Bank	.....	.....	1.88 ¹	2.23 ¹	1.01	1.15	43	2.30	5.3
First National City Bank	1.23 ²	1.41 ²	1.33 ²	1.47 ²	1.29 ²	.73 ²	58	3.00	5.1
Guaranty Trust Co.	1.12	1.26	1.18	1.24	1.19	1.33	65	4.00 ³	6.1
Hanover Bank	.....	.....	1.81 ¹	2.03 ¹	.93	1.04	43	2.00	4.6
Irving Trust Co.	.57	.65	.63	.70	.63	.70	31	1.70	5.4
Manufacturers Trust Co.	.84	.95	.88	1.09	.88	.95	41	2.00	4.8
N. Y. Trust Co.	1.27	1.39	1.31	1.43	1.35	1.46	69	3.25	4.7
U.S. Trust Co. N. Y.	1.26	1.46	1.35	1.56	1.40	1.10	63	3.20	5.0

*—Bid price.

¹—1st 6 months.

²—Including City Bank Farmers Trust Co.

³—Plus stock.

business continued to take its toll. The decline in housing starts led to some disturbingly lower results in the building materials, home furnishing and appliance fields. The non-ferrous metals turned in dour results, with the plummeting price of copper making deep inroads into the profits of many producers of the red metal.

There is little reason to believe that third quarter results will be much different from the very selective industry and individual company pattern established in the first half of this year. All along the line, costs continue to mount and managements are faced with the urgent problem of controlling their profit margins. Wage bills continue to rise as escalator clauses make their presence known in labor contracts, transportation costs push steadily ahead, as do also the costs of other services. Rising sales volume is not indicative these days of higher profits, as real profit squeeze has now become the order of the day, what with burgeoning costs and competition. Total net earnings of all United States corporations are forecast at \$22 billion for the year, up 4.7% from the revised 1956 total of \$21 billion, indicating an ability to keep earnings on an advantageous level during a period when the business level remained rather stable, with goods selling at higher prices. Cash dividends are expected to attain a new record of \$12.5 billion this year, compared with \$11.9 billion in 1956, but a decline in year-end extras seems likely.

Industry Survey

The Steels

Ingot production in the first nine months of this year approximated the same tonnage as in the corresponding period in 1956, with output in the final quarter largely dependent on the automobile industry. The best estimates at this time would appear to indicate that for the full year 1957, total steel production will be a little better than the 115 million tons turned out in 1956. The steel operating ratio however has recently been running around 82%, compared with 101.8% a year ago, following a month long strike, and 96.7% two years ago. The ratio is now computed, however, on capacity of 133.4 million tons against 128.4 million tons in 1956 and 125.8 million tons a year earlier.

Overall steel earnings for the current year are expected to compare favorably with those of 1956, but there will be a considerable divergence among individual companies. Those operators with a well-balanced product mix such as Bethlehem, Jones & Laughlin and U. S. Steel are expected to report earnings improvement, while the companies heavily geared to the output of sheet and strip such as Armco, Sharon and Wheeling seem likely to show moderately lower profits.

One of the major problems in the steel industry has been the financing of the abnormally high capital expenditures for both modernization and expansion. To pay for these unprecedented outlays has necessitated public financing in some cases, and has also tended to limit dividend payouts in some cases. However, as these capital outlays appear to have passed their peak, they should have a favorable long term effect on dividend prospects depending of course on the business situation.

In looking further to 1958, many industry leaders are saying that production will stay at about present

tonnage levels. One of the first predictions as to steel output next year was recently made by an executive of one of the major steel companies, who estimated that the industry will operate next year at 83% to 85% of its new capacity on January 1st next.

The Oils

Since last April, domestic oil demand (which included imports) has failed to reach earlier expectations, showing only about 1% gain for the first eight months of 1957. In addition, the new flare-up in the Mid-East, while not affecting foreign shipments, has raised new problems for international oils. It should be observed, however, that international diplomacy was successful in clearing up the equally explosive Suez crisis, and that diplomacy will probably again be successful in calming the troubled Syrian waters. Oil demand should rebound moderately in the fourth quarter, which in turn, will lower the level of the currently bothersome inventories and firm up the price structure. Weather plays a highly important role in forecasting oil demand, and for the 1956-1957 heating season the weather was abnormally warm in both the United States and Europe. Thus, oil demand will be coming off a low, favorable statistical base during the last quarter of 1957 and the initial quarter of 1958.

Third quarter earnings for the oil industry will be mixed. Plus signs are likely to be reported by the internationals and the West Coast group of companies. Producers, despite lower demand for crude, should maintain their rate of earnings because of the crude price increase of last January. The top integrated companies operating east of the Rockies should also hold their own. But Eastern refiners, on balance, may be hard-pressed.

In the fourth quarter, however, all segments of the industry should report higher earnings, but not at an even rate of gain. The internationals should lead the list. With profit margins holding up on the West Coast, companies operating in that area should also show good gains. Eastern-based integrated companies stand to benefit from higher demand and improved prices. Producers, however, will statistically be coming off a high base as production was increased in the fourth quarter to help meet the Suez crisis. Earnings gains for refiners, on balance, should be rather spotty.

The Paper Industry

By mid-1956, it became increasingly apparent that the paper industry was entering a period of excessive inventory accumulation and over-capacity that would necessitate an adjustment from the strong growth trend that had characterized the paper industry since 1949. Since the fall of 1956, when the first substantial capacity increases were completed, a strong competitive relationship has developed. As a result, with the supply readily available, there was no longer any need for customers to maintain as high a level of inventories as in past years. The tight money market exerted further pressures for liquidation of inventories. Meanwhile, all items in manufacturing cost continue to increase. Because of the competitive situation and the lower sales for most companies, the industry has generally been unable to pass on these cost increases to its customers. The effect has been an industry profit squeeze. However, it is significant that (Please turn to page 188)

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Hoffa Throws Down The Gauntlet —Will Congress Pick It Up?

By McLELLAN SMITH

A series of events revolving principally about the McClellan Committee revelations and subsequent defiance by the Teamsters Union in electing James R. Hoffa as its chief, is crystallizing public sentiment for a Federal code of labor control legislation.

Not all of the props on which the demand is built are of recent origin. Not all of organized labor is opposed to the idea of bringing unions into the democratic system of Government. That about 25 percent of the delegates to the teamsters' convention in Miami were willing to "drive the rascals out" in the face of assured punishment (since meted out in several instances) is a hopeful sign. It is even more promising when it is remembered that few of the recalcitrant delegates were present without Hoffa's permission or the favorable nod of his henchmen on the local levels.

In addition to dissatisfaction expressed within groups of organized labor who are learning for the

first time that their money is being frittered away for non-union, anti-union, and illegal purposes, there is the overpowering number of gainfully employed persons who are members of no union, bend the knee to no labor czar. They are the three out of each four employed persons who do not carry union cards. They are the ones who back legislators supporting right-to-work legislation, knowing the alternative is labor union destruction of their livelihood: where state right-to-work laws do not exist, a new employee is allowed a limited time (usually 30 days) within which to join the controlling union, pay arbitrarily fixed initiation fees and dues and bind himself to meet assessments levied at the whim of the union "leader." If he doesn't, he loses his job!

Section 14(b) of the Taft-Hartley Act supports this with all the majesty of Federal law. The Act does, however, give priority to state R-T-W laws in that it exempts from union membership those indi-

viduals residing in R-T-W law states if they elect to exercise their right to refuse to join the controlling union.

It is this Section which has come under the greatest fire from union leaders. They would leave in the forced union membership provisions, but strike out the subordination of forced unionism to the statutes of the R-T-W states. Thus far, the Supreme Court has sustained the state laws. It is more than irksome to labor leaders. It cuts into union revenues for the reason that many, many working men and women in the R-T-W law states do not consider a union as necessary to their economic welfare, hence stay out of the dues-paying circle.

Union leaders denounce the R-T-W laws as a threat to what they chose to call "union security." These laws threaten no security of the unions, but they diminish the financial returns to union treasuries. Unions grew and prospered without compulsory membership. Their rate of growth and prosperity was determined on the basis of services delivered to members — not upon the basis of dues unwillingly paid by a captive membership.

Not All Unions Seek Forced Membership

Notable among the unions which prospered without compulsory membership are the "Big Four" of the Railroads — Brotherhood of Locomotive Engi-

neers, Order of Railway Conductors, Brotherhood of Enginemen and Firemen, and the Railway Trainmen. These unions — organized in the past century — never demanded forced membership; do not demand it today. Nor do they refuse to work alongside peers who do not belong to their union. Membership was never by solicitation. The worker who desired membership made application of his "own free will and accord." A single "black ball" could bar him from membership. But he kept his job!

When Congress was holding hearings on an amendment to the Railway Labor Relations Act which would bring about compulsory membership in the rail unions, Warren Stone, Grand Chief of the Engineers, went before a Senate Committee to oppose the amendment. Said Mr. Stone:

"I do not believe in forcing a man to join a union. If he wants to join, all right; but it is contrary to the principles of free government and the Constitution of the United States to try to make him join. We of the engineers work willingly side by side with other engineers every day who do not belong to our union though they enjoy without any objection on our part the advantages we have obtained. Some of them we would not have in the union; others we cannot get."

There is the statement of the leader of a union which prospered and grew because of service to its membership — not because a Federal ukase said "join

States with Right-to-Work Laws Outpace Rest of Country WAGE AND PERSONAL INCOME TRENDS*

Right-to-Work States in 1956	Gross Earnings of Production Workers 1952-56		Personal Income % Change 1947-1955	Right-to-Work States in 1956	Gross Earnings of Production Workers 1952-56		Personal Income % Change 1947-1955
	Weekly	Hourly			Weekly	Hourly	
Alabama	22.1%	23.7%	53.6%	Nevada	13.8%	25.3%	120.9%
Arizona	19.3	21.6	117.2	North Carolina	14.2	13.3	62.1
Arkansas	19.3	21.9	33.1	North Dakota	17.9	21.8	— 1.5
Florida	16.6	20.6	123.1	South Carolina	16.1	15.0	66.1
Georgia	19.4	20.0	68.1	South Dakota	22.1	20.4	7.6
Iowa	16.8	19.8	43.6	Tennessee	15.6	17.9	52.3
Louisiana**	26.6	29.1	68.9	Texas	20.7	23.6	70.6
Mississippi	13.8	18.4	41.3	Utah	24.4	24.7	60.2
Nebraska	22.9	23.3	35.6	Virginia	15.6	15.0	80.1
				Average	18.7%	20.9%	61.2%
Other States							
California	18.6%	18.7%	81.1%	Montana	19.4%	18.8%	41.8%
Colorado	22.4	23.3	64.8	New Hampshire	12.6	12.3	55.3
Connecticut	17.5	18.6	72.2	New Jersey	16.8	18.5	84.6
Delaware	20.7	21.9	107.6	New Mexico	19.2	25.3	97.6
Idaho	12.9	12.0	30.7	New York	16.5	17.1	43.8
Illinois	19.4	20.0	56.1	Ohio	20.9	20.8	68.5
Indiana***	19.4	19.7	67.8	Oklahoma	19.8	21.8	51.9
Kansas	18.2	20.2	37.2	Oregon	13.1	12.7	55.7
Kentucky	18.4	24.2	58.2	Pennsylvania	21.0	21.2	47.9
Maine	15.0	15.6	41.7	Rhode Island	10.7	12.2	43.9
Maryland	24.0	22.8	87.7	Vermont	13.5	15.1	35.9
Massachusetts	13.8	14.7	52.0	Washington	16.6	15.2	54.8
Michigan	16.8	17.7	80.8	West Virginia	21.8	22.3	30.4
Minnesota	16.8	19.9	53.8	Wisconsin	17.4	18.8	51.0
Missouri	17.6	20.3	62.8	Wyoming	17.5	16.9	41.7
				Average	17.6%	18.6%	58.6%
Right-to-Work states outgained rest of country by these percentages							
					6.3%	12.4%	4.4%

*Figures are latest annual figures available; 1952 is the earliest year that wage figures were available for all states.

**Louisiana had a general Right-to-Work law during this period. The law was repealed two years after its enactment and replaced by one applying only to agricultural workers.

***Indiana enacted a Right-to-Work law in 1957.

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or starve!" It points up that a union's prime reason for existence is service to membership, not the collection of dues from everyone holding a job.

A labor union, like the corner retailer, should give fair value and good service for each dollar received or go out of business. At the moment there is this difference: in all but the 18 states having R-T-W laws, "customers" of the labor union lay cash on the line through Federal compulsion — value and service are at the whim of the "leader." This is a condition of which rank-and-file members are becoming aware. A recent nation-wide survey by a fact-finding organization notes the awakening.

Public Favors "Right To Work" Law

In a coast-to-coast poll, the American Institute of Public Opinion found that 33 percent of the nation's rank-and-file union members favor R-T-W laws and, if given the opportunity to participate in a referendum, would support such legislation. Sixty-one percent said they would oppose such a law, while six percent were undecided. In the ranks of the general public, 63 percent favored the R-T-W law, 27 percent were opposed and 10 percent were without opinion. Since less than one-fourth of the labor force is unionized, these figures indicate a preponderance of public opposition to compulsory unionism, no negligible part of it stemming from rank-and-file union members. Appended is a regional table showing results of the survey, revealing that strongest support for R-T-W laws lies in the East, not the South as claimed by labor spokesmen. Of the 18 states having R-T-W laws, eleven are in Dixie and seven in the West.

Union spokesmen contend that R-T-W laws depress the economies of the states having them, consequently hurt the wage earner. The charge evaporates upon analysis. Gross earnings of production workers in the 18 R-T-W states advanced 18.7 percent in the 1952-56 period; the advance for production workers in the 30 states without such laws was 17.5 percent. In the 1947-55 period, R-T-W state production workers experienced personal income gains of 61.2 percent, while the gain outside the R-T-W states was 58.6 percent.

Union leaders contend that workers should equally bear the cost burden of collective bargaining, as all citizens should equally bear the cost of public education and other public services. On casual inspection, the contention would seem plausible, but taken at their word, union leaders have backed down. Recently, 15 non-operating unions of the Santa Fe Railway asked for a modified union shop. New employees and old non-members would be required to pay initiation fees, dues and assessments, but need not become union members. Objecting to compulsory unionism, the Santa Fe replied it would accept the demand provided that only payments for collective bargaining expenses were exacted. The unions flatly rejected the railroad's proposal which was based on a Georgia Supreme Court ruling which said:

Results of Nation Wide Poll on Right-to-Work Law

	General Public	Union Members
Vote for law	63%	33%
Vote Against	27	61
No Opinion	10	6

Taking the results by regions shows the majority of voters in each section favoring the law:

EAST: Vote for law	69%	MIDWEST: Vote for law	56%
Vote against	22	Vote Against	33
No Opinion	9	No Opinion	11
SOUTH: Vote for law	64%	WEST: Vote for law	61%
Vote Against	23	Vote Against	33
No Opinion	13	No Opinion	6

"We do not believe one can constitutionally be compelled to contribute money to support ideas, politics and candidates which he opposes. We believe his right to immunity from such exaction is superior to any claim the union can make upon him."

Nevertheless, the unions rejected the Santa Fe's proposal. They insisted on full payment of initiation fees, dues and assessments without restrictions on the unions' use of the money. Clearly, then, the unions seek completely unjustified contributions in addition to payment for services rendered through collective bargaining. In short, the unions want "whole hog or none."

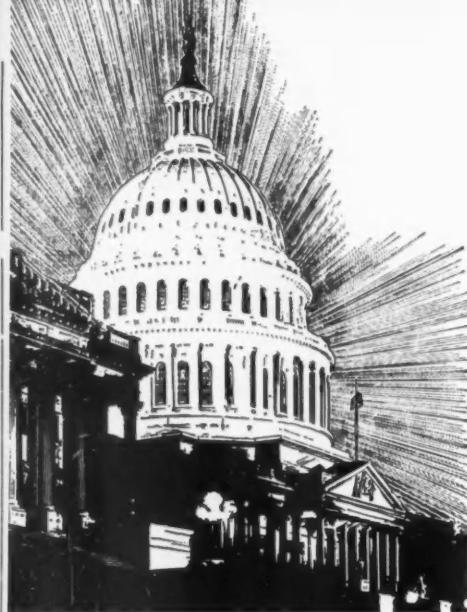
Unions Free From Anti-Trust Enforcement

But R-T-W laws are not the only needed curbs upon the rapacity of union leaders. Unions of today are "big business." Many of them with cash and other real assets surpassing those of some of the large corporations at the turn of the century, now are in position to pose definite threats to the national economy. Their strong cash positions are further enhanced by judicial and executive interpretations of existing law which make the unions immune to prosecution under the anti-trust statutes. Unions can, with impunity, commit acts in restraint of trade the like of which could send the business executive to jail.

Time and again, the Supreme Court has ruled that trade repressive acts by the unions are beyond legal redress, so long as their commission was in the best interest of the offending union. Very definitely there is the stark economic necessity of bringing unions once again within the purview of anti-trust statutes with the resultant penalties for violation. As the laws now stand, backed up by Court interpretation, union leaders are in position to wipe out an industrial operation with impunity.

Placing labor unions within the pale of Federal antitrust and anti-monopoly laws would be neither punitive nor a hastily contrived means to combat problems of but recent discovery. The reform has had careful study. It has been indorsed by impartial observers of the labor scene who reached their conclusions in the calmer climate of pre-Hoffa expose days. President Eisenhower is one: in his 1955 economic message to Congress, the President stressed that a free economy does not exist where there is monopoly, either by business or labor.

The Attorney General's (Please turn to page 169)



Inside Washington

By "VERITAS"

LAYOFFS in widely distributed industrial areas are attributed to defense cutbacks in many instances. The Bureau of Employment Security says 24 major industrial centers have labor surplus, as have 62 secondary centers. An upswing in 60 days is predicted, but it will be in non-manufacturing lines. The West

WASHINGTON SEES:

Application by the Boston & Maine Railroad for permission to make drastic cuts in passenger service will be fought with all the national facilities of the Brotherhood of Railroad Trainmen who regard this a "test case" which might be used by other carriers to get rid of unproductive traffic. The B&M petition will be decided on the state level because the drop in traffic is traced largely to competition from Eastern Massachusetts Street Railway. But it will afford a trial run of arguments pro and con and will have the attention of unions directly and collaterally concerned, as well as carriers.

A recent survey showed only 3 per cent of workers using transit to and from typical outlying industrial plants. It also forecast that in the 21st century most industrial plant will be located in suburban or semi-rural areas. The report showed a proponderance of shopping centers not served by transit. Faced with this steady attrition of their patronage, transit companies are going out of business at the rate of about 100 a year. Ann Arbor, Mich., a city of 40,000 turned up only 3 people out of 100 riding buses on an average weekday.

In this state of facts, something has to give. Transit seems to be running into its problem faster than railroads, where it has been cumulative for years. Query: Will the super-highways come big enough, soon enough, and numerically sufficient to handle the transition?

Coast appears to lead in the drop in employment, but the plane plants on Long Island, the General Electric branches, and at least one branch of U. S. Steel (Birmingham, Ala.) has felt the pinch. What speedup in missiles will accomplish is conjectural.

DEPARTMENT STORES have encountered an unexpected merchandising problem: rumors that toys imported from Japan are decorated with paints that have been found in scattered instances to contain lead poisoning. The prospect of placing such toys in the hands of tots builds sales resistance which the store keepers have asked the U.S. Public Health Service to break down by official clearances. USPHS hesitates; this appears to invade the function of local health authorities. But with \$2.5 million worth of toys imported from Japan and offered in 200,000 catalogs to retailers, the stake is high.

ANNIVERSARY of the Social Security System — its twentieth—is observed this year. It is generally accepted today, and that's not hard to understand. At present more than 10 million Americans receive benefits, including more than 7.5 million retired workers whose withdrawal from the labor market was made possible by the new law—in most cases. During this year, payments under old age and survivors benefits will run to \$7 billion. In 1956 employers and their payrollers contributed \$6.2 billion in SSA taxes, built the fund to \$22.5 billion.

COLLECTING unpaid accounts is getting tougher. The American Collectors Association, made up of 2000 members, says fewer overdue accounts were squared in the July-September period than at any time since the second quarter of last year. The individual accounts increased in amount also. Overbuying continues to be No. 1 for slowness or nonpayment. It even runs ahead of unemployment, and it raises some question whether the debtor or the creditor is more at fault. The average overdue bill ranges from a low of \$20 in the South Central states, to a high of \$73.34 average in Oregon and Washington.

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As We Go To Press

► Sweeping changes in the Social Security Act are being discussed. Increased employer contribution is elemental in the planning. Rep. Aime Forand, one of the top men on the ways & means committee proposes that benefits be increased by about 10 per cent. The reason given is a challenging one: to meet inflation. New features include insurance against the costs of hospital, nursing and surgical care for those receiving SSA benefits — with nationalized or socialized medicine ruled out. Each beneficiary would be given the right to choose his medical and institutional care. Payrollers would have to contribute one-half of one per cent more if the revisions become operative.

► As of today, the federal aid to schools bill is deader than ever before. Florida is following the lead of several other states in readying legislation to take education out of the category of public functions,

which means the votes of states which stood to profit the most will be lost to the bill next year. No federal enactment or judicial decree can require a state legislator to vote educational funds although he may attach no strings to monies he does authorize: there can be no segregation on the basis of race. Some states would abolish public schools, but provide tuition for pupils in private schools — schools which are not bound by the Supreme Court ruling. Others may declare the existing schools surplus, put them up for bids; incorporated school districts — private corporations — would buy the properties at long-deferred rates, hire teachers of their own selection and admit only students whom they wish to enroll.

► This has led to renewed interest in wiping out the overlap of Federal and State taxation by restoring tax areas to states making it possible for them to derive incomes making federal-aid of most description unnecessary. A Southern Congressman, Rep. L. H. Fountain of North Carolina, is conducting a series of conferences throughout the country. They'll run to Dec. 10, allowing time for a report and recommendations to the next Congress. On the record, the inquiry is far removed from Little Rock, Ark., because President Eisenhower started it several years ago when he appointed a Federal-State Commission on taxation. Mayors and Governors are being asked whether they could get along without Federal grants, and on what basis.

► Two unrelated events, one on

each seaboard, play a large part in Congressional planning for next year. The Teamsters' Union has ignored all warning signals and has placed James R. Hoffa at its head, which means Capitol Hill no longer can take seriously the assurance of the Dead End Kids of organized labor that they will clean up their own wreckage. It forces the hand of Congress. That happened at Miami, Fla. At Sacramento, Cal., Senator William R. Knowland was making it official that he's ready to place his official fortunes on the block by becoming a candidate for Governor of California, pledged to right-to-work legislation.

► Observing the performance of this year's session of Congress and appraising comments by President Eisenhower and Labor Secretary Mitchell, you'd almost have to bet that organized labor will get away from legislative stricture again this year. The McClellan Committee has impounded the ballots which elected Hoffa, but what happens now is unclear. If the Teamsters want to ignore laws of their own making, it's hardly a subject for action by Congress. The Government will be hard put to find public law violation. And if the purpose is to show Hoffa as a man wholly unmindful of the public welfare, that job seems already done or in the doing, in the courts.

► Secretary Mitchell appears to consider the Labor Department's job will be done if unions are not put on notice to submit reports which will tell the story of pension and benefit funds management.

Even the Teamsters are willing to do that! President Eisenhower told a press conference that Congress has a public disclosure measure in process and, quoting the President, he doesn't see what else can be done. What can be done, as a starter is to place unions under the Federal anti-trust law's jurisdiction. But if the highest men in the Administration not only will not front for real controls, but also shies away from indorsing them under other sponsorship, it's hardly likely that the Democrats in Congress will undertake the job. Not in a political campaign year in any event.

► As Republican Leader in the Senate, Knowland drew some criticism from party associates by his refusal to support the White House all down the line. The Californian spoke out, and voted independently, in the days when the Eisenhower Administration was riding high. He didn't like the Administration's foreign policy and said so publicly. As things were to turn out, he was blazing a trail: the attitude, and the vote, of Congress on foreign aid proved he wasn't alone in his thinking. Now Knowland has made right-to-work a keystone of his campaign platform. And Ike's Secretary of Labor, James P. Mitchell, is against state laws which say a person cannot be forced to join a union or jeopardize his livelihood!

► Senator Knowland cannot be accused of grasping popular issues. Right-to-work legislation was put before the people of his state in a referendum, a dozen years ago, and it lost by half a million votes. But since that time, the operation of the "closed shop" has been weighed and found wanting by 19 state legislatures. Most of the states indorsing right-to-work are industrial. It is to be presumed that the legislators knew the wishes of their constituents. And in the skillfully organized and well-financed propaganda programs of the unions sight is often lost of the fact that three of each four gainfully employed persons haven't signed up with any union.

► The California campaign ties directly into the future of the republican party, especially with respect to personalities. Sooner or later Vice President Richard M. Nixon is going to be forced to

declare himself, stand up and be counted either on the side of Governor Goodwin Knight or of Senator Knowland. At this point, Nixon might well be considered the No. 1 candidate for the 1960 GOP Presidential nomination. He can't afford to guess wrong! On the one hand there is the powerful vote-getter, Knight, who brings to the campaign his own machine, patronage forces, and such organized labor as vote in group fashion—for Knight is opposed to the right-to-work law. On the other hand, there is Knowland the "anti-union" candidate.

► If Nixon sides with Knowland it will be taken to mean he has aligned himself against a principle dear to the hearts of the unions. Strange as it may seem, neither Dick nor Ike, has been forced to go on record on the issue up to now. If the Vice President supports Knight, he loses Knowland's political friendship and his strongest claim for the top nomination, the world of business and conservative thought. If he backs the wrong horse in this race it's almost certain that he will go to the 1960 Republican National Convention without the support of his state delegation. That, historically, has been fatal to the success of a candidate.

► The Arkansas National Guardsmen who were "federalized" by President Eisenhower in the fiasco which saw the same men, in the same uniforms, at the same post of duty for what was proclaimed as two diametrically opposed missions, may be the only winners in the war of segregation. The guardsmen, most of them teen-agers, were called by Governor Faubus in their role as militiamen, to prevent disorder; then they were called back by President Eisenhower, as Federal troops, to prevent disorder. But the change of status was an important one for the boys: they now have had Federal Service; they, and their families, are entitled to the benefits and emoluments, including medical and hospital care, that accrue to Uncle Sam's warriors!

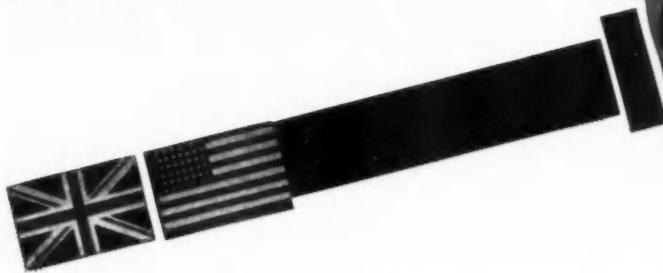
► The U.S. Veterans' Administration, whose chiefs say they must have more money from Congress to take care of this year's needs, will need a new set of books if Veterans of World War I, USA, gain their objective. The organization is chartering locals through the country and to start, will demand \$100-a-month pensions for all World War I veterans at age 60.

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- What chance for Anglo-Canadian free trade?
- Record British capital investments in Canada
- New Dominion steps to control foreign investments
- Extent of inter-dependence between Canadian and U.S. economies



Our Best Customer is Making—

POLITICAL-ECONOMIC CHANGES THAT AFFECT US

By M. L. S. BAYSWATER

Despite a tight security screen and an exuberance of generalities when carefully-worded announcements have been made, top level informants in Ottawa now emphasize that the "new deal" policies on foreign investments—and the intended switch to more trade with Britain and the rest of the British Commonwealth at the expense of the United States, will be implemented at a slower rate than most Canadians and Americans expect. Some proposed changes may not even be fully realized in the present generation, if at all, it is now hinted by these informants, though they do not minimize coming effects on U.S. ownership and control of Canadian industries when the long-range master plan of the "new deal" is ultimately carried out.

The amazing growth of interdependence between the U.S. and Canadian economies came as a big surprise to the conferees when British and Canadian cabinet ministers went into deep discussions how to switch more trade from U.S. to their own sphere. The reaction in Canada to whatever announcements were made on these high level talks indicated clearly that so far the talks have been more friendly than fruitful as far as immediate practical results are concerned. There were so many deep entanglements in this interdependence that no overnight changes could be made in the intended switch of trade, nor could any drastic, sudden changeover of control of investments be created. Following these talks at top levels, some wide differences of opinion on trade and tariff policies within the British Commonwealth, as well as within Canada itself, were foreseen.

Meanwhile, Canada's Finance Minister Donald Fleming has indicated that foreign capital has been entering Canada this year in a continuing record volume and the net indebtedness to foreign investors now has passed the \$10 billion mark. While this heavy inflow has driven the Canadian dollar to a premium in terms of the currencies of other countries, a premium which has penalized Canadian exports, yet the Minister has admitted that "this infusion of foreign capital has greatly assisted in the expansion of the Canadian economy, the maintenance of its momentum and the development of our natural resources."

"The proper course for Canadians is to seek... through savings and active investment... to share in an ever-increasing degree in the ownership of their own resources," he said, expressing confidence "the Canadian people will respond to the need of more Canadian capital."

Foreign Investment Is Largely Venture Capital

Mr. Fleming has emphasized the need for Canadians to put more money into savings not only to combat inflation but to give themselves a larger share in the ownership of their own resources. Of course, this would be a big weapon to combat the steady increase in large-scale foreign ownership, mainly by U.S., of many important Canadian industries, especially since Canadians now have more money in savings than ever before in history at \$6,242,000,000, a gain of over \$301,000,000 over last

Summary of Capital Movements, 1956, 1957

(Millions of Dollars)

	1956 (First Half)	1957 (First Half)
Direct investment in Canada	290	250
Direct investment abroad	71	35
Canadian securities:		
Trade in outstanding stocks	88	91
Trade in outstanding bonds	32	8
New issues	292	540
Retirements	94	71
Foreign securities:		
Official loan repayments	28	27
Canadian dollar holdings of foreigners	28	56
Official holdings of gold and foreign exchange (increase)	1	9
Other capital movements	274	184
Net capital movement financing current account	798	94

year alone.

Moreover, there is still a definite tendency among Canadians not to invest readily in so-called "risky" enterprises so that foreign capital, again mainly from U.S., keeps moving into such fields. Official sources reveal the net movement of capital for *direct* investment in foreign-controlled enterprises in Canada climbed to unprecedented height of \$595 million in 1956, surprisingly about 40% over previous peak of \$426 million in 1953 and 43% over the \$417 million in 1955. In addition, this was dwarfed last year by the inflow of portfolio capital.

Capital of U.S. origin accounted for \$409 million or 69% of the total direct investment inflows last year, comparing with \$306 million in 1955, or 73% of the total. Capital from the United Kingdom amounted to \$113 million, comparing with \$68 million in previous year, and the movement from other overseas countries rose to \$73 million from \$43 million in 1955. Last year's movements were in each case new records.

The net inflow from U.S. was 33% larger than in the previous year, and 20% larger than previous record of 1953, while inflow of British capital was 67% larger than in 1955, and 50% above the previous mark set in 1954, with inflow from other overseas countries being 70% above the record of 1955.

There are a number of factors which contributed to the growth of book value of U.S. direct investments in Canada. It should be noted, too, that the inflow of portfolio capital from the U.S. added some \$212 million to investments in the past year in U.S. controlled companies. This capital movement was more than half the size of the net direct investment

inflow. New issues of bonds and borrowings by finance companies were the most important elements. From the U.K. substantial amounts of direct investment capital also were directed last year to the petroleum industry, uranium mining and aluminum production, as well as the repurchase of the controlling interest in a ship building and engineering equipment company that had been established in Canada prior to World War I by a British firm, but had been controlled in Canada for 30 years. The large inflow from other overseas countries was mainly of Western European origin and included large amounts for the petroleum industry, iron and steel products, cement plants, real estate and financial companies.

Canada's Capital Imbalance

The movement of portfolio security capital in the past year showed up most dramatically in the Canadian balance of payments. During the year Canada imported \$760 million, net, of capital through international security transactions compared with a capital export of \$51 million in the preceding year, and this is considerably more than twice as large as the previous record net inflow established in 1950. It is stressed by officials that securities transactions were a dominating feature of the international capital account in the past year, exceeding for the first time since 1950 the net inflow for direct investment in foreign-controlled enterprises.

The net capital import from all portfolio security transactions included \$207 million from trade in outstanding Canadian issues and \$681 million from sale to non-residents of new Canadian issues, offset by \$140 million in retirements of foreign-held Canadian securities. A net inflow of \$12 million occurred, on balance, from transactions in foreign securities. Still despite sharp rise in portfolio capital movement from overseas, U.S. was by far the most important source of external capital of this type and

United States Direct Investment in Canada

(Millions of Dollars)

ACCOUNT	1946	1955	1956	1946-1956
Gross inflows of new capital:				
Petroleum industry (exploration, development, refining, transportation, merchandising)	2	195	228	1,312
Mining, n.i.e.		60	62	474
Pulp and Paper	20	35	33	187
Manufacturing, n.i.e.		77	121	
Utilities, n.i.e.		9	2	
Merchandising, n.i.e.	41	21	12	901
Financial		17	12	
Miscellaneous		7	10	
Sub-total	63	423	480	2,874
Return of capital	25	117	71	495
Net capital inflow for direct investment	38	306	409	2,379
Net other identified capital movements affecting the investment of United States residents in United States-controlled enterprises*	43	32	212	403
Net capital inflow	5	338	621	2,782
Retention of profits and other factors, including revaluations, reclassifications and similar accounting adjustments	129	364	287	2,339
Net increase in book value	124	702	908	5,121

*Net issues, retirements, borrowing, investment abroad, etc., affecting the total value of investment in Canada by United States residents in United States-controlled enterprises; also includes classification adjustments in respect of direct investment transactions representing significant investment in non-United States-controlled enterprises.

net movement from U.S. amounted to \$535 million compared with an overflow of \$84 million recorded in the previous year. The earlier post-war record for net capital movement from the U.S. for all security transactions was \$382 million in 1950.

Moreover, officials reveal now that, despite headlines about "Canada First" under "new deal", the main part of the capital inflow this year for long-term investment continues from U.S., mainly from high level of Canadian borrowing through sales of new issues across the border as well as large sustained direct investment inflows from U.S. companies. Inflows from overseas countries are also again unusually heavy, and in the first-half of this year represented about one-quarter, or not far from \$200 million of the net inflow of capital in long-term forms. Table on page 142 compares movement in the first half of 1956 and 1957.

U.S. investments in Canada, now well past the \$12 billion mark, are likely to continue moving ahead, at least in the immediate future, judging from known plans for expansion by U.S.-controlled companies operating in Canada, and from heavy borrowing intentions by Canadian provincial and municipal governments and others, due to high interest rates and continuing difficulties in floating large issues in Canada at present.

Rechannelling Trade to Britain Not Easy

Reports from Ottawa suggest that "new deal" desire to see a much larger flow of capital within the British Commonwealth as part of the switch of trade from U.S. may run into trouble because such capital movements will be uncomfortably limited. At least, for a long time to come, this is unlikely to replace U.S. capital because neither Canada, Britain, Australia, New Zealand nor South Africa are in a position to have so much capital on a scale and at a comparable rate with U.S. capital movement to Canada.

Furthermore, the economies of the U.S. and Canada now have become so deeply interlocked that any plan to switch trade on a large-scale from present orbit is bound to be much more difficult in practice

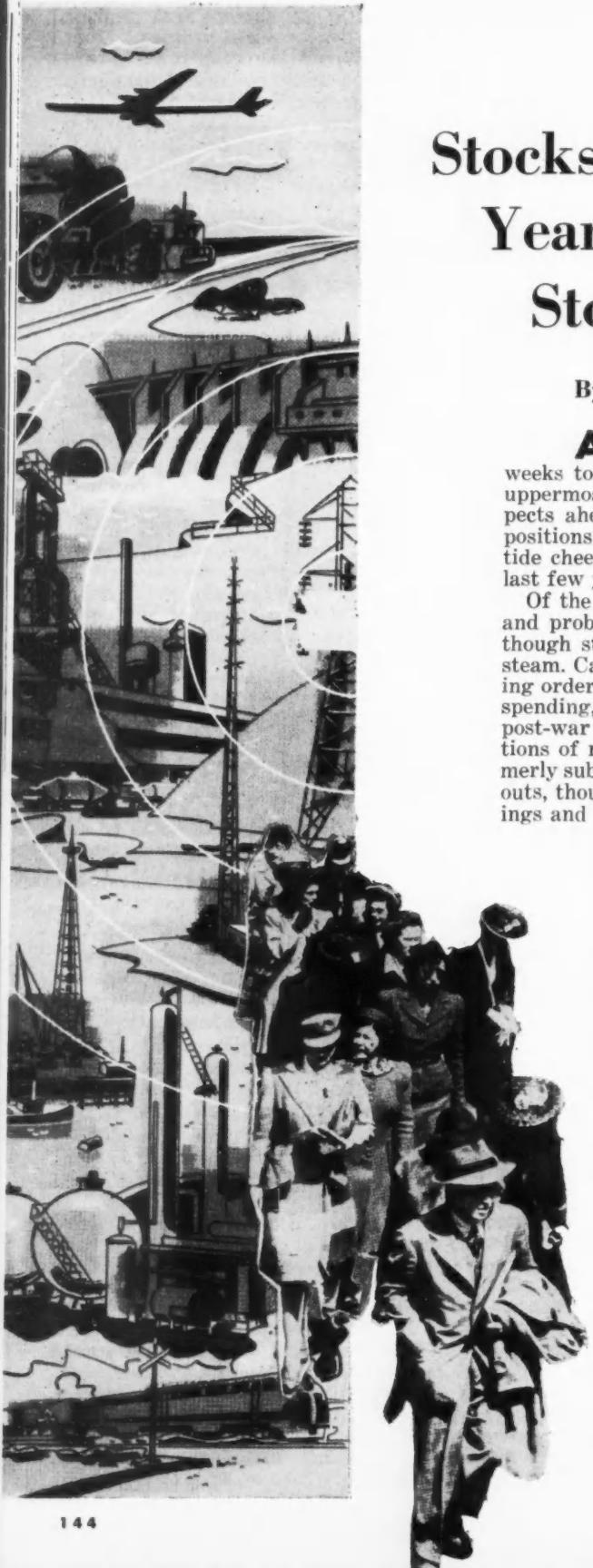
than in theory. Even if a bilateral trade arrangement is drawn up and runs into no legal problems from operations of GATT (General Agreement on Tariffs and Trade), deep-rooted economic interdependence will bring serious obstacles. Top level informants stress this point. Concrete evidence of this is also clearly shown by the Economics Branch, Department of Trade and Commerce in a report to Foreign Trade, revealing that value of Canada's merchandise exports to U.S. increased ninefold since before

World War II, and with allowance made for the effect of higher prices, still exports in volume terms have more than tripled pre-war, climbing by 100% in the last decade alone (See Export Table). This rate of growth in Canada's trade with U.S., exports and imports, has, in fact, exceeded by a wide margin the rate of gain of the national output of each country. This interdependence has come about, in part at least, by breakdown of pre-war system of international exchange that enabled Canada to sell only 35% of her exports in U.S. markets yet buy no less than 60% of total foreign purchases from U.S.

In the next few years, this official source forecasts, given continued prosperity and growth in U.S. and

Canada, it seems probable the flow of goods to U.S. will continue to expand but, temporarily at least, at a more moderate rate than in recent years.

Of course, with Canada chalking up huge deficits in her trade with U.S., an adverse balance of \$1,003,-000,000 in first-half this year compared with \$941,000,000 last year, to reach one of the highest deficits in post-war years, a sharp outcry is heard for action to correct it. But, and this is important, public opinion in Canada seems to be anxious for adjustments, not drastic move with the alarm almost wholly set off by particular segments of the economy solely in their own interests. Significant, too, demands for protection are not merely directed against U.S. but just as much against U.K. or whatever source provides allegedly unfair competition. What has happened in Mont Tremblant and in Ottawa meetings lately, considered by some as the start of a British trade and tariff bloc in the making, reflected these feelings (Please turn to page 175)



Stocks Likely To Pay Year-End Cash or Stock Dividends

By HAROLD M. EDELSTEIN

As corporation directorates sit down in the next few weeks to ponder the question of year-end extras, the thought uppermost in their minds will be the diminished business prospects ahead, and this year's pinched profit margins and cash positions. As a result the outlook for these annual bits of Yule-tide cheer doesn't seem nearly as bright as it has been in the last few years.

Of the factors contributing to the change this year, the first and probably foremost is the general business picture, which though still strong, shows definite signs of having run out of steam. Capital spending has turned downward, reducing incoming orders in a number of capital goods industries; and defense spending, a bulwark for so many industries during most of the post-war decade is beginning to feel the economy's axe. Cancellations of military orders has already put a crimp in many formerly substantial backloggs; while in other cases contract stretch-outs, though leaving backloggs intact are reducing current earnings and lowering prospects for next year.

Add to these elements a general disappointment that the hoped for end-of-the-year business pickup has not yet materialized, and you have a set of circumstances that is bound to put a damper on director's optimism for the opening months of 1958.

However, the prospect of lower earnings in the near future is far from being the sole determinant of dividend policy. For confirmation, one need only look back to what happened in 1954, when despite a mild recession, over 400 companies listed on the New York Stock Exchange raised their dividend rates. They were able to do so then, however, because corporations were generally in excellent financial shape, liquidity was high, and outside funds were readily obtainable if needed. Furthermore, with the Korean War expansion just completed, most companies were looking ahead to a period relatively free of capital expenditures. Under the circumstances directors could take a liberal dividend stand, even if the near term outlook was not particularly exciting.

But today the situation is radically different. The prospects of lower earnings ahead are forcing many a director to look into the company coffers—and the bald fact is, as we have pointed out on several occasions in this magazine, that corporate liquidity has been substantially reduced. As a result, many directors concerned over everyday financing problems are liable to turn a jaundiced eye to the payout of cash for extra dividends.

In 1956 the record year-end declarations brought

How Companies That Paid Year-End Dividends in 1956 Shape Up This Year

	1956 Net Earnings Per Share	1st 6 Months Net Earnings Per Share		1957 Estimated Net Per Share	1956 Total Div. Payment	Amount of Extra Div. Paid 1956 Year-End	1957 Indicated Regular Rate *
		1956	1957				
Allied Chemical & Dye	\$4.74	\$2.57	\$2.23	\$4.65	\$3.00	3% ¹	\$3.00
American Brake Shoe	6.64	3.92	3.64	6.00	2.90	.50	2.40
American Chain & Cable	6.80	3.66	3.45	7.00	2.50	.50 ²	2.50
American Chicle	4.56	2.31	2.55	4.90	3.00	.25	3.00
American Home Products	8.14	4.01	4.98	10.00	5.00	1.20	4.80
American Machine & Metals	5.83	2.54	3.15	6.90	2.60	.50	2.40
Boeing Airplane	4.82	2.22	2.47	5.25	1.25	2% ¹	1.00
Clark Equipment	4.11	2.01	1.87	4.00	2.12	.25	2.00
Corning Glass	2.72	1.39	1.22	2.75	1.50	.50	1.00
Cutler Hammer	5.23	2.84	2.35	4.65	2.30	.50	2.00
Distiller Corp. Seagrams	2.63	2.87 ³	2.30 ³		1.70	.50	1.20
Eastman Kodak	4.89	2.11	2.09	5.00	2.65	.25 ²	2.40
General Amer. Transport.	5.71	2.79	3.21	6.25	3.15	.25	3.20
Goodyear Tire & Rubber	6.03	3.02	3.47	6.75	2.40 ²	2% ¹	2.40
Homestake Mining	1.23	1.09	1.13	2.25	2.00	.40	1.60
Johns-Manville	3.50	1.87	1.20	2.75	2.25	.25	2.00
Link Belt	5.95	2.88	2.91	6.10	3.15	.75	3.00
McIntyre Porcupine	3.79	1.75	1.58	3.40	3.00	1.00	2.00
Merck & Co.	1.92	.98	1.13	2.25	1.00	.20	1.00
Minneapolis-Honeywell Reg.	3.40	1.46	1.56	3.40	1.75	.15	1.60
Montgomery Ward & Co.	2.65	.88	.77	2.50	2.62	.25	2.00
National Cash Register	2.62	1.16	1.16	3.00	1.10 ²	5% ¹	1.20
National Supply	5.13	2.76	3.00	5.50	1.43	1.12	2.40
Parke, Davis & Co.	3.59	1.76	2.26	4.35	1.70	.15	1.80
Penney (J. C.) Co.	5.68	2.08	2.23	6.00	4.25	1.25	3.00
Radio Corp. of Amer.	2.63	1.32	1.35	2.80	1.50	.50	1.00
Rohm & Haas	15.21	7.57	7.82	15.50	2.40 ²	3% ¹	2.00
Shell Oil	4.49	2.29	2.49	4.90	1.86	10% ¹	2.00
Socony Mobil Oil	5.70	2.83	2.81	5.60	2.30	.50	2.00
Standard Brands	3.48	1.76	2.00	3.90	2.25	.25	2.00
Sun Oil	5.22	2.48	2.34	5.45	1.00 ²	6% ¹	1.00
Texas Co.	5.51	2.52	3.01	6.15	2.35	.45	2.00
Texas Gulf Producing	1.46	.81	.95	1.85	.60 ²	4% ¹	.60
Timken Roller Bearing	4.50	2.68	2.42	4.75	2.00	.50	2.00
U.S. Gypsum	5.01	2.56	2.32	4.50	2.50	.50	2.00
Warner Lambert Pharm.	4.50	1.95	2.15	5.25	2.00	2% ¹	2.50
Wrigley (Wm.) Jr., & Co.	5.67	2.93	2.87	5.70	5.00	1.00	3.50

New Candidates for Year-End Special Dividends

	1956 Net Earnings Per Share	1st 6 Months Net Earnings Per Share		1957 Estimated Net Per Share	1956 Total Div. Payment	1957 Indicated Regular Rate *
		1956	1957			
Amerada Petroleum	\$4.20	\$2.15	\$ 2.48	\$ 4.75	\$2.00	\$2.00
Chrysler	2.29	2.14	10.29	15.00	3.00	3.00
Corn Products	2.36	.78	1.02	2.75	1.50	1.50
Inland Steel	9.43	5.23	5.26	10.00	4.25	4.25
Lorillard (P.) & Co.	1.34	.68	.83	2.00	1.20	1.20
National Biscuit	2.96	1.27	1.44	3.20	2.00	2.00
Philip Morris, Inc.	4.06	1.83	2.00	4.65	3.00	3.00
R. J. Reynolds Tobacco "B"	5.91	2.81	3.17	6.75	3.10	3.60
Skelly Oil	5.93	2.70	3.47	6.90	1.80	1.80
Standard Oil of California	4.24	1.93	2.16	4.60	1.65	2.00

*—Estimated total 1957 payments, but excluding possible year-end declarations.

¹—Paid-in stock.

²—Plus stock.

³—9 months ended April 30.

⁴—Paid out in October, 1956.



total dividend payments up to 57% of net earnings. This is the highest figure for any post-war year except 1954—and the 1957 totals may equal last year's. (The 1954 figure, incidentally, was artificially inflated. Many companies put off year-end payments into the opening weeks of 1954 to give shareholders the benefits of the lower personal income tax rates that went into effect on January 1, 1954.)

Complicating the liquidity problem of course, is the tight money market which makes bank borrowing costly, at a time when companies are becoming particularly cost conscious. Nor does the bond market offer much solace to the average company seeking funds. Bond prices have been sluggish and new flotations have been "sticky," forcing corporations to add various "sweeteners" to make a better market for their issues.

Many companies, therefore, will seek to retain earnings to bolster cash positions, and also, where possible, to avoid going into the stock market for new capital. This, therefore, may lessen the chances for cash dividend increases and extras. On the other hand, companies likely to be in the market for new financing in the future may find it desirable to pay these extras in order to present a more attractive dividend picture to prospective buyers when new shares are offered.

Extras in Stock

There is an out, however, that has come much into vogue in recent years, and many more companies are likely to turn to it as a compromise. This is the stock dividend which is usually paid in addition to cash, but frequently has been used in lieu of cash. Stock dividends are not new, of course, and have been used for years with excellent results by a number of prime growth companies. High on the list of these cash-plus-stock companies are IBM, Rohm & Haas, Dow Chemical, Gulf Oil and Eastman Kodak—and in recent years numerous other major and lesser companies have joined the ranks. It appears now, that because of the special advantages it holds for both the corporation and the investor, the stock dividend will become more fashionable than ever.

For corporations such as those cited above, heavy research expenditures are a way of life, necessitating a high percentage of earnings plow-back. Since cash dividends paid to shareholders are lost to the company, the substitution of stock gives the stockholder a participation in the company's growth at no sacrifice of much needed cash to the corporation.

Not all companies engage in costly research proj-

ects, of course, but whether plowed back earnings are used for research, for additions to working capital or to finance expansion, the principal remains the same. From the company's standpoint stock dividends are a form of equity financing that converts current earnings into capital in a manner so simple that the cost is virtually nil. How important this is today can be seen by the fact that the cost of common stock financing for manufacturing corporations now ranges from 7% to 15% of the proceeds of the issue, depending on the size and standing of the company seeking the capital.

Needless to say the stockholder also receives some attractive advantages from stock dividends. For one thing the stock disbursement is considered tax free in all but a few special instances. This is an advantage to any shareholder these days, but especially so for those in the higher income tax brackets. Of course, if the investor needs the cash he is free to sell the dividend, in which case his maximum tax liability will be the 25% applied to any capital gains transaction. (Naturally if he has held the investment for less than six months, the proceeds of the sale must be treated as ordinary income.) But if he holds on to the dividend, he is the owner of additional shares at no expense to himself, and future dividend payments will be computed on the basis of his total holdings—compounding the return over the years.

The Pattern for 1957

But though corporate liquidity is a vital factor in this year's dividend picture there are other basic problems, as well. Certainly earnings have held up well this year despite some broad differences among individual industries and companies, and stockholders can be counted on to expect extras or increases that reflect current earnings. But management, more cognizant of the potential difficulties that lie ahead, will be more reluctant to commit itself. The stock dividend is one answer to the dilemma, of course, but in some cases cash extras may be resorted to as a means of forestalling increases in regular rates. Few would argue that extra dividends have often been a sign of a company's unwillingness to increase the regular dividend. Under today's conditions, therefore, many corporations that have scored good earnings records this year, but see a rockier road ahead, may well turn to this expedient as their best out.

Thus a highly mixed year-end extra pattern seems to be in the offing this year. One thing seems certain however; directors will try to keep dividend extras as conservative as possible.

As always, a host of individual circumstances will dictate the policies of any given corporation. Payments will vary not only with respect to this year's earnings, and finances—the extent to which expansion and modernization programs have been completed and paid for; and the degree of uncertainty in the company's prospects for 1958 and beyond.

Some Virtual Certainties

Despite the many imponderables however, there seem to be a number of "sure-fire" extra-dividend candidates this year. **Chrysler Corporation** stands alone among the auto makers in this respect. The

entire industry faces 1958 with some doubts, despite confident predictions of bettering the 1957 sales totals, and Chrysler is no exception. But this year has been so outstanding for the company that shareholders are likely to be remembered pleasantly at Christmas time. Chrysler's claim to the "star comeback" title is amply bolstered by earnings that will rebound to approximately \$15 per share after the precipitous drop to \$2.29 per share a year ago. Financial condition is good and management has demonstrated this year that it possesses the resourcefulness to meet and best new challenges. But the formidable task of consolidating this year's gains remains, and it will not be made easier by the general slowdown and more "cautious optimism" that is gripping large segments of the economy. In this context, it is doubtful that Chrysler's directors will go overboard in the matter of extras. True to the conservative trend, probably no more than \$1.00 will be paid.

The Drug industry, reflecting its strong 1957 earnings performance and untarnished 1958 prospects, is of course the most fertile area for searching out this year's extras. **American Home Products**, with its earnings still climbing and expected to cross the \$10.00 per share mark this year compared with \$8.14 in 1956, appears certain to at least repeat the \$1.20 extra it handed out last year. But more importantly, the company's broad diversification in a number of important consumer fields, including packaged foods, cosmetics, proprietaries, and other household items, lends enough apparent stability to future prospects that another 5¢ increase in the monthly dividend payment may be in the offing.

In the same industry, **Allied Laboratories**, whose earnings will be over \$5.00 per share against last year's \$3.97 also seems certain to pass out an extra, but considering its cash needs for research and development, we would not be surprised if this year the extra came in the form of stock. There are others of course whose probabilities are listed in the accompanying table, but it should be mentioned that **Warner-Lambert**, though a likely candidate may take the more important step of again raising the dividend rate; and **Parke Davis**, despite a dividend increase that goes into effect on October 31, 1957, may still come forth with an extra at year-end.

American Cyanamid, usually classified as a chemical company also falls in the possible extra category, largely because of the excellent results of its Lederle pharmaceutical operations. Cyanamid has succeeded admirably in lowering its dependence on industrial chemical products, and nothing bespeaks that success more than this year's record. While most producers of industrial chemicals are having difficulty holding their own, Cyanamid managed to

better last year's first half performance by a few cents per share, and the gap will probably widen as the year progresses. A small dividend boost to a 40¢ quarterly rate will probably be declared at year end, and there may be an extra to soothe those who feel that the boost should be larger.

The Oil Industry Situation

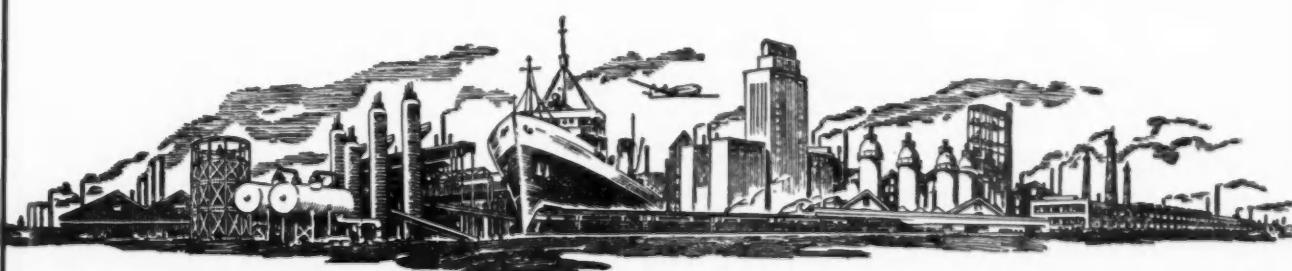
The fairly sudden change in the oil industry from boom during the Suez Crisis to a painful overproduction problem currently would ordinarily dictate some retrenchment in extra policies this year. But the recently announced new financing by both Standard Oil of New Jersey and Royal Dutch is probably a harbinger of more fund raising to come in the industry. Under these circumstances when the market is displaying such inordinate weakness, most year-end extras will most likely be maintained intact, and a few newcomers may even enter the ranks.

Cities Service, one of the country's major integrated petroleum units is scoring sufficient gains this year to virtually assure another 2% stock dividend in addition to its regular cash payment, but there is also a strong possibility for either a dividend increase or a cash extra at year-end.

Revenues so far this year are modestly ahead of a year ago, and earnings, reflecting an exceptionally good first quarter should advance to over \$6.50 per share compared with \$6.03 in 1956. Ordinarily the uncertain outlook for the industry and potential political difficulties in the Middle East, where the company has recently gained a foothold, would indicate dividend caution, but some financing in 1958 seems a certainty as various outstanding obligations mature. In a period when forecasting money market conditions even a short time ahead is a hazardous occupation, a cash extra or dividend increase would lay a good groundwork for eventual equity financing, if that expedient proves necessary.

Skelly Oil, on the other hand, may be a newcomer to the year-end extra lists in 1957. The company has built up a huge supply of low cost reserves that should stand it in good stead at a time when the industry's price structure is shaky. Marketing operations are a minor part of Skelly's activities, but its position as a supplier of crude to other members of the industry is secure. In addition, the company is a leader in the growing liquified petroleum gas field.

Dividends have generally been conservative enabling Skelly to finance over \$200 million in capital expansion over the last five years solely from internal sources. This year, however, earnings are expected to approach (Please turn to page 176)





3 THUMBNAILS

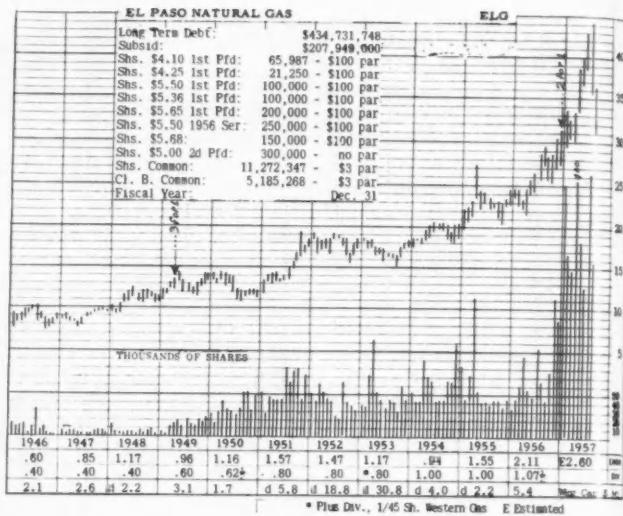
COMPANIES THAT HAVE EXTRA ATTRACTIONS IN NATURAL RESOURCES

By OUR STAFF

In the present period of uncertainty in security markets, it is well to give careful consideration to certain issues that offer both a fair yield, stable earning prospects and moderate growth potential — as well as some participation in natural resources. Such issues may be found to serve, to a reasonable degree, several investment objectives that at first glance appear incompatible.

The market has recently witnessed a typical sharp swing in sentiment or investor preference — away from the over-emphasis on "growth" or appreciation in terms of profit, to a sudden awakening to the importance of income and yield as a basic concept. Under the circumstances, investors with experience over the years will prefer to protect their position.

The stocks suggested for consideration in this article will appeal particularly to the investor who adopts a moderate or balanced approach to the problems of the moment. (Please turn to page 177)



EL PASO NATURAL GAS

BUSINESS: Company and its affiliates operate the nation's largest natural gas pipeline. The 15,300 mile system, comprised of El Paso's own operations and those of its 99.8% owned Pacific Northwest Pipe Line subsidiary gathers its gas from west Texas and the prolific San Juan Basin of New Mexico, and distributes it into California, Washington, Oregon and virtually every other far western state. El Paso produces over 11% of its own requirements, and produces another 11% in its own extraction plants. In June, 1957 fully owned reserves stood at almost 9 trillion cubic feet.

OUTLOOK: Total operating revenues since the end of the war have skyrocketed from \$9.2 million in 1946 to \$221.5 million in 1956. In the same period the gross value of all properties increased from \$42.5 million to \$1,164 million. Basis for the company's exceptional success has been its virtual monopoly in the west coast area at a time when that part of the country was enjoying an unprecedented population boom. In addition to its holdings in Pacific Northwest, company owns a 25% interest in West Coast Transmission Co., which has been chartered by the FPC to pipe gas from the fields of western Canada into the American west coast area. Other holdings include a 23% interest in Western Natural Gas, a 28% participation in Rare Metals Corp., and a 70% interest in Northwest Production. Earnings this year should rise to about \$2.65 per share from \$2.11 last year, excluding the class B shares that have no participation in dividends this year. The inclusion of the class B next year will raise total outstanding shares to 16.9 million from 11.7 million currently, but even then earnings are projected at approximately \$2.50 per share for 1958. In answer to a government suit seeking to force El Paso to divest itself of the Pacific Northwest holdings, the company this August requested FPC permission to merge that company. Rate increases scheduled to take effect the first of the year should bring in an additional \$20 million in revenue.

DIVIDENDS: Dividends have been paid consistently since 1936. In the post-war era, payout has averaged over 55%. Rate on the newly split shares is presently 32½% quarterly.

MARKET ACTION: Present price of 28½ compares with an all-time high of 44½ scored earlier this year. Yield currently is over 4.6%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1947	June 30 1957	Change
ASSETS		(000 omitted)	
Cash & Marketable Secur.	\$ 2,621	\$ 77,924	+\$ 75,203
Receivables, Net	1,585	31,148	29,563
Inventories & Supplies	872	26,751	25,879
Other Current Assets	052	9,619	9,567
TOTAL CURRENT ASSETS	5,130	145,342	140,212
Property & Equipment	97,375	1,163,576	+\$ 1,066,201
Invest. & Funds Accts.	1,148	26,402	25,254
Other Assets	360	13,113	12,753
TOTAL ASSETS	\$ 104,013	\$ 1,348,433	+\$ 1,244,420
LIABILITIES			
TOTAL CURRENT LIABILITIES	\$ 2,527	\$ 139,942	+\$ 137,415
Reserve Deprec. & Depletion	10,743	147,170	136,427
Other Liabilities	616	13,983	13,367
Long Term Debt	61,828	690,275	628,447
Preferred Stocks	10,675	132,485	121,810
Common & Com. "B" Stocks	5,784	169,928	161,144
Minority Interest		5,567	5,567
Surplus	8,840	49,083	40,243
TOTAL LIABILITIES	\$ 104,013	\$ 1,348,433	+\$ 1,244,420
WORKING CAPITAL	\$ 2,603	\$ 5,400	+\$ 2,797
CURRENT RATIO	2.0	1.0	1.0

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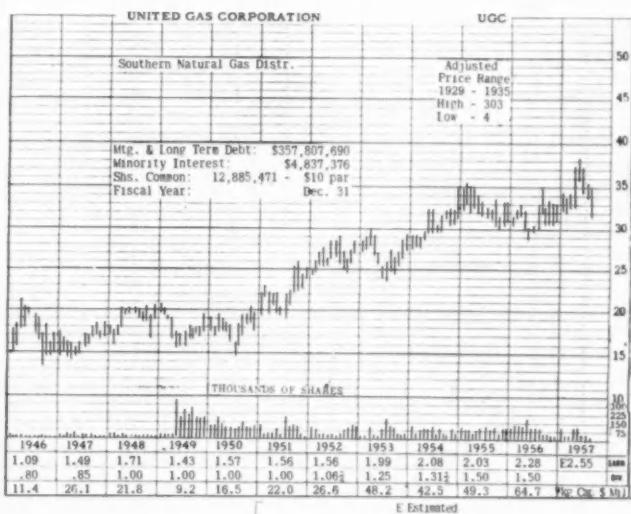
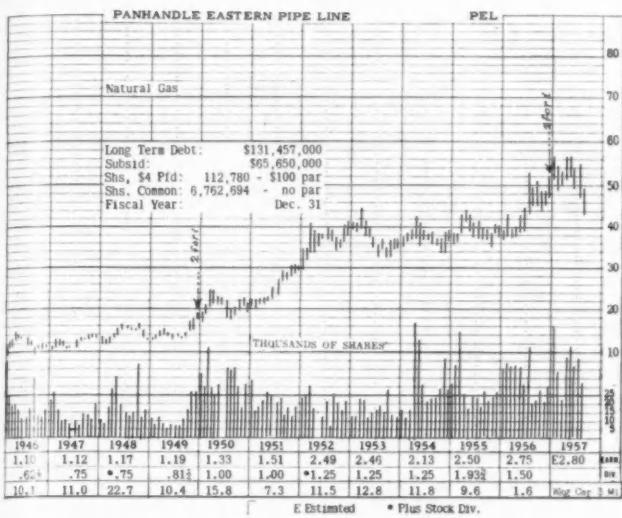
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PANHANDLE EASTERN PIPELINE

BUSINESS: Panhandle pipes natural gas over a 6,150 mile system from Texas to almost 1,500 communities in Michigan, Kansas, Missouri, Illinois, Indiana and Ohio. Some gas is also fed into the Canadian province of Ontario. A 97% owned affiliate, Trunkline Gas, operates an additional 1,300 mile system from Texas to Illinois. Complementing pipeline operations are important natural gas reserves estimated at more than 11 trillion cubic feet, from which the company supplies almost 30% of its own needs. Oil production is also becoming an important revenue factor.

OUTLOOK: An increase in gas purchase costs will keep earnings bettered to modest proportions this year, but a new record should be set at about \$2.80 per share. Company has enjoyed enormous growth since the end of World War II. Since 1946 revenues have jumped from \$27.7 million to \$112 million in 1956. For 1957, revenues should be about 6% higher. Although principal income is derived from the sale of gas, the company also operates an oil refinery with a daily capacity of 4,000 barrels and has a 40% stock interest in National-Petro-Chemical Corp., a joint venture between the company and National Distillers Corporation. Both oil production and the joint venture are beginning to bring returns to the company. They will show up in this year's income statement and should become of increasing importance in subsequent years. Rate difficulties have beset the company since 1955, making it difficult to offset higher costs, but a \$9 million interim increase is now in force. No permanent financing has been done since 1954, although revolving bank loans were used to aid in the 1956 construction and expansion program. No immediate new financing is contemplated.

DIVIDENDS: Dividends have been paid in every year since initiated in 1937, and have averaged almost 60% of earnings during most of that period. The present dividend rate on the 6.7 million common shares is 45¢ quarterly.

MARKET ACTION: Current price of 42½ compares with a 1957 high of 56½, and a 1956-1957 range of 56½ high to a low of 37. The \$1.80 annual dividend affords a 4.2% yield.

UNITED GAS CORPORATION

BUSINESS: Company and subsidiaries operate an 8,100 mile pipeline system servicing the Gulf states area. Almost 20% of the system's needs are produced by the company from its own natural gas reserves. Latest estimates place these reserves at 4.5 trillion cubic feet. In addition crude oil reserves stand at over 80 million barrels, and other reserves including condensate and natural gasoline total over 60 million barrels.

OUTLOOK: In line with the record of other quality producers in the industry, company's revenues have soared in the last decade. From \$63 million in 1946 they climbed steadily to \$272 million in 1956, and should rise another 10% to 15% this year. Earnings for 1957 should increase to about \$2.60 per share compared with \$2.03 per share a year ago, and expected rate increases combined with increased use of gas in the areas served will probably lead to further improvement in 1958. The increase is contemplated even though company expects to sell its 75% interest in Duval Sulphur & Potash, which operation provides almost 5% of present net earnings. In March 1957 United raised \$35 million from the sale of first mortgage bonds to help pay for a \$53 million construction and development program. The balance of the funds is to come from internal sources. In addition to its gas reserves, oil production handled by the Union Producing Company subsidiary, and petrochemicals, are becoming important sources of revenues and earnings. Petrochemical revenues are derived from a 45% interest in Escambia Bay Chemical Company. System gas revenues are well balanced, with 40% coming from wholesale operations, 33% from industrial sales and the balance from residential and miscellaneous sources.

DIVIDENDS: Dividends have been uninterrupted since initiated in 1944. The present 37½ quarterly rate has been in force for three years, and may be increased if past percentage payout is to be a guide.

MARKET ACTION: At present price of 30 the stock is 8 points under its all time high and within 3 points of its four year low. Current yield on the \$1.50 annual dividend is exactly 5%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1947	June 30 1957	Change
ASSETS			
Cash & Marketable Secur.	\$ 10,840	\$ 6,732	-\$ 4,108
Notes & Accts. Rec.	3,355	15,519	+ 12,164
Materials & Supplies	2,529	5,468	+ 2,939
Misc. Curr. Assets	647	647	
TOTAL CURRENT ASSETS	16,724	28,366	+ 11,642
Property & Equipment	131,496	290,181	+ 158,685
Investments	2,306	33,710	+ 31,404
Other Assets	444	769	+ 325
TOTAL ASSETS	\$150,970	\$353,026	+\$202,056
LIABILITIES			
TOTAL CURRENT LIABILITIES	\$ 5,649	\$ 26,680	+\$ 21,031
Res. for Deprec., Depl. & Amort.	29,685	91,397	+ 61,712
Other Reserves	1,185	2,054	+ 869
Other Liabilities	2,198	13,009	+ 10,811
Long Term Debt	58,000	127,048	+ 69,048
Preferred Stock	13,750	11,100	- 2,650
Common Stock	20,250	21,133	+ 883
Surplus	20,253	60,605	+ 40,352
TOTAL LIABILITIES	\$150,970	\$353,026	+\$202,056
WORKING CAPITAL	\$ 11,075	\$ 1,586	-\$ 9,389
CURRENT RATIO	3.0	1.0	- 2.0

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1947	June 30 1957	Change
ASSETS			
Cash & Marketable Secur.	\$ 34,639	\$ 60,761	+\$ 26,122
Notes & Accts. Rec.	7,230	30,245	+ 23,015
Inventories & Supplies	6,672	21,169	+ 14,497
Misc. Curr. Assets	332	1,486	+ 1,154
TOTAL CURRENT ASSETS	48,873	113,661	+\$44,788
Property & Equipment	315,793	766,497	+ 450,704
Investments	4,103	15,911	+ 11,808
Other Assets	3,453	3,761	+ 308
TOTAL ASSETS	\$372,222	\$899,830	+\$527,608
LIABILITIES			
TOTAL CURRENT LIABILITIES	\$ 22,680	\$ 48,949	+\$ 26,269
Other Liabilities	1,961	11,380	+ 9,419
Reserve Deprec., Depl. & Amort.	76,828	227,217	+ 150,389
Other Reserves	23,674	.....	- 23,674
Long Term Debt	116,500	351,886	+ 235,386
Common Stock	106,533	128,855	+ 22,322
Minority Interest	842	6,775	+ 5,933
Surplus	23,104	124,768	+ 101,664
TOTAL LIABILITIES	\$372,222	\$899,830	+\$527,608
WORKING CAPITAL	\$ 26,193	\$ 64,712	+\$ 38,519
CURRENT RATIO	2.2	2.3	+ .1



CORN PRODUCTS REFINING

Old Line Company in New Growth Phase

By W. A. HODGES

The Corn Products Refining Company, as it enters its second half century of operations has suddenly changed from an old-line, conservative producer of a group of prosaic products derived essentially from corn, to one with a rapidly broadening sales base and a wide variety of new products. In 1957 fully 30% of all revenues will be derived from new products including zein, a raw material used in the manufacture of synthetic fibres and printing inks; Inositol, a drug for relieving hardening of the arteries; and glucurorolactone, used in the treatment of arthritic ailments. It rapidly have new products grown in importance that it is expected that by the early 1960's income from these sources will at least

equal the revenues derived from its traditional products.

In all, Corn Products now produces over 450 industrial, and 20 consumer products. More than 60 industries are serviced directly, and all are essential to our national economy. At the present time roundly 53% of all sales are in bulk form, including oil, dextrose, starches, corn sugars and syrups—all used in the manufacture of such items as adhesives, candy, chemicals, paper and soaps. An additional 32% of the sales volume is made up of bulk sales of cattle and poultry feeds; the balance is derived from a wide variety of consumer packaged products sold largely through grocery outlets under widely known

brand names, such as "Argo" corn starch, "Karo" corn syrup and "Mazola" salad and cooking oils.

Broadening Research Base

Despite this broad sales base, the company has not rested on its laurels—nor has it confined its research activities solely to the more exotic plastic and drug fields. The company has an investment of over \$50,000,000 in research, which is becoming increasingly more valuable and productive. And during its 50th anniversary year a Technical Division was established to supervise control of all of the company's creative activities. The division is responsible for research, development, engineering, technical services, product development, application research and for the planning, designing and construction of the company's continuing modernization program. Its laboratories are not only outfitted with the most modern equipment available, but what is more important they are staffed with top-flight scientific and technical talent. Recent developments springing from the research program include 2 new types of dry-strength binders, products of extreme importance for the foundry industry, and a major spray-dryer installation for the manufacture of instant starch from grain sorghum for the food industry. The new spray-dryer is produced at the company's Corpus Christi plant and is, incidentally, the only piece of equipment of its kind in the industry. In line with this development the company has also created and is now producing commercially, a type of grain sorghum which has special characteristics for a wide range of uses, both in the food field and in industry.

Among the new products with large volume potential is "Nu Bru" concentrate, a product much in demand by the brewing industry. Nu Bru is expected to replace the traditional brewery process of mashing and cooking dry corn and refined grits, which form the starch adjunct necessary to beer brewing, and this will permit the brew to reduce costs, improve quality and to expand capacity with existing equipment.

Corn Products is also test-marketing other potentially high volume items including a cake frosting mix, a dry French-type dressing, in the consumer field—and has in various stages of development and

Comparative Balance Sheet Items

ASSETS	December 31		
	1946 (000 omitted)	1956	Change
Cash & Marketable Securities	\$ 50,203	\$ 19,245	-\$ 30,958
Notes & Accounts Receivable	9,181	22,761	+\$ 13,580
Due from Subsid. & Affiliates	2,634	2,250	-\$ 384
Inventories	12,816	38,478	+\$ 25,662
Other Current Assets	007	—	007
TOTAL CURRENT ASSETS	74,841	82,734	+\$ 7,893
Net Property	42,462	104,966	+\$ 82,504
Investments	19,884	12,915	-\$ 6,969
Intangibles	—	4,263	+\$ 4,263
Other Assets	8,434	9,599	+\$ 1,165
TOTAL ASSETS	\$145,621	\$214,477	+\$ 68,856
LIABILITIES			
Accounts Payable	\$ 6,777	\$ 11,122	+\$ 4,345
Provision for Taxes	17,886	15,783	-\$ 2,103
Accruals	5,383	4,593	-\$ 790
TOTAL CURRENT LIABILITIES	30,046	31,498	+\$ 1,452
Other Liabilities	616	762	+\$ 146
Reserves	2,500	2,683	+\$ 183
Notes Payable	—	2,358	+\$ 2,358
Preferred Stock	25,000	25,000	—
Common Stock	63,250	82,178	+\$ 18,928
Surplus	24,209	69,998	+\$ 45,789
TOTAL LIABILITIES	\$145,621	\$214,477	+\$ 68,856
WORKING CAPITAL	\$ 44,795	\$ 51,236	+\$ 6,441
CURRENT RATIO	2.4	1.2	— 1.2

in pilot plant production other new industrial and consumer products.

Diversification Through Acquisition

Aside from internal new product development, Corn Products has also been aggressive in purchasing and acquiring new sales potential from outside sources. The corn kernel itself is such a versatile and prolific bit of chemical structure that it provides ample room for diversification—but the company has not stopped there. It is now, for example, grinding sorghum in Texas, a grain which provides nearly all of the characteristics of corn but is grown in a different part of the country and is considerably more drought resistant—but of greater significance has been the rising trend towards acquisition. In 1954

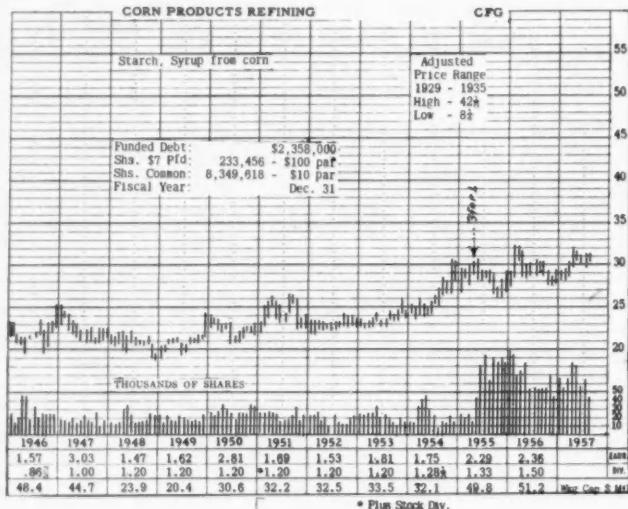
Long Term Operating and Earnings Record

	Net Sales (Millions)	Operating Income (Millions)	Operating Margin	Income Taxes (Millions)	Net Income (Millions)	Net Profit Margin	Net Per Share*	Div. Per Share	Percent Earned on Invested Capital	Price Range High	Price Range Low
1957-1st 6 months	\$162.0	—	—	\$ 7.7	\$ 9.3	5.7%	\$1.02	\$1.50 ¹	—	32 ¹ / ₂ -28 ²	—
1956	304.1	\$27.8	9.1%	15.2	23.5	6.9	2.36	1.50	13.2%	32 ¹ / ₂ -27 ¹ / ₂	—
1955	290.1	26.2	9.0	13.9	20.6	7.1	2.29	1.33	12.6	30 ¹ / ₂ -26	—
1954	194.7	24.6	12.6	12.4	15.8	8.1	1.80	1.28	10.5	30 ¹ / ₂ -23 ¹ / ₂	—
1953	193.7	26.4	13.6	14.2	16.1	8.3	1.81	1.20	11.2	26-22 ¹ / ₂	—
1952	183.1	21.6	11.8	11.3	13.9	7.6	1.53	1.20	10.0	24 ¹ / ₂ -21 ¹ / ₂	—
1951	187.8	18.9	10.0	9.9	15.2	8.0	1.69	1.20	11.1	26 ¹ / ₂ -22	—
1950	178.0	29.2	16.4	14.6	23.0	12.9	2.81	1.20	17.3	24 ¹ / ₂ -20 ¹ / ₂	—
1949	145.3	20.2	13.9	8.5	14.0	9.6	1.62	1.20	11.6	24 ¹ / ₂ -19	—
1948	171.8	13.8	8.0	4.7	11.0	6.4	1.47	1.20	9.7	22 ¹ / ₂ -18 ¹ / ₂	—
1947	196.7	25.7	13.0	13.3	15.2	7.7	2.02	1.00	13.5	25 ¹ / ₂ -20 ¹ / ₂	—
10 year average 1947-1956	\$204.5	\$23.4	11.7%	\$11.8	\$16.8	8.2%	\$1.94	\$1.23	12.0%	32 ¹ / ₂ -18 ¹ / ₂	—

*—Excluding non-Canadian foreign subsidiaries.

¹—To Oct. 25, payable date.

²—To October 10, 1957.



Kasco Mills, a maker of formula farm feedings and dog foods, was purchased for newly issued Corn Products shares. In 1955 Bosco Milk Amplifier, a high quality chocolate flavored iron-fortified milk amplifier, was purchased for cash and added to consumer product lines. And in the same year the company acquired Nu Soft Fabric Softener Rinse for home use in washing machines. These products are all being merchandised on a national scale at present. In March of this year the company added \$35,000,000 in sales with the acquisition of Refined Syrups and Sugars, Inc. of Yonkers, a manufacturer of liquid and granulated grain sugar for a variety of food processing industries. An added "kicker" in this acquisition was a manufacturing location for some of Corn Products' packaged items for eastern distribution.

In conjunction with this growth program, the company is reappraising its entire merchandising techniques in line with new findings in the field of consumer motivational research and buyer psychology. Harley Earl, Inc., of Detroit, a leader in the field of modern approach to consumer packaging, has been employed to conduct a study and to re-design consumer product packaging in a manner that will encourage impulse buying and induce chain store operators to more prominently display the company's products. As a corollary, the consumer product advertising program has been intensified, with advertising expenditures rising to over \$9,000,000 in 1956, compared to only \$5,000,000 in 1955. Further advances were made in 1957.

Foreign Operations

On the domestic scene Corn Products Refining has risen to a dominant position in this highly competitive industry. But it has not let the world go by. Actually the company has been engaged in its own "Point Four" program for over a quarter of a century, and as a result is now the world's leading producer of dextrose, corn syrup, starches and oils, operating on a truly international scale, with plants in 17 countries on 4 continents. Grinding plants are located in Canada, Mexico, Colombia, Brazil, Argentina, England, Scotland, France, Belgium, Holland, Germany and Italy, with packaging and sales companies in many other parts of the world comple-

menting their activities, as well as those of the foreign export division. Wherever possible these foreign plants use local nationals as their labor force and in addition materials used for current requirements are purchased locally. In this way the company contributes important revenues to the particular foreign economy. Some of these foreign facilities also serve as pilot plants where the latest technological advances are tested at minimum costs. Currently, Corn Products is studying business conditions in several countries in the Far East for possible location of operating units in that area—and in fact an office has already been opened in Hong Kong.

Strong Management

The company's growth to a place as the unchallenged leader in this industry has been the result of a particularly astute management and a long-standing program of developing new talent within the company. The potential evils of inbreeding, however, have been prevented by an over-all policy of generally keeping the Board of Directors well stocked with representatives from other industries. In this way the company gains the advantage of the broadened viewpoint of men whose experience enables them to assist the company in many areas outside of its own field of endeavor.

There is a comprehensive program for developing executive talent through critical selection and varied training programs at all levels, as well as job training in the diverse facets of this highly specialized business. As a result the highly important second and third levels of management executives are high in caliber and adequate enough in number to assure instantaneous replacement of top level talent. Overseas local organizations maintain the same policy, with equal opportunity going to nationals of the local country.

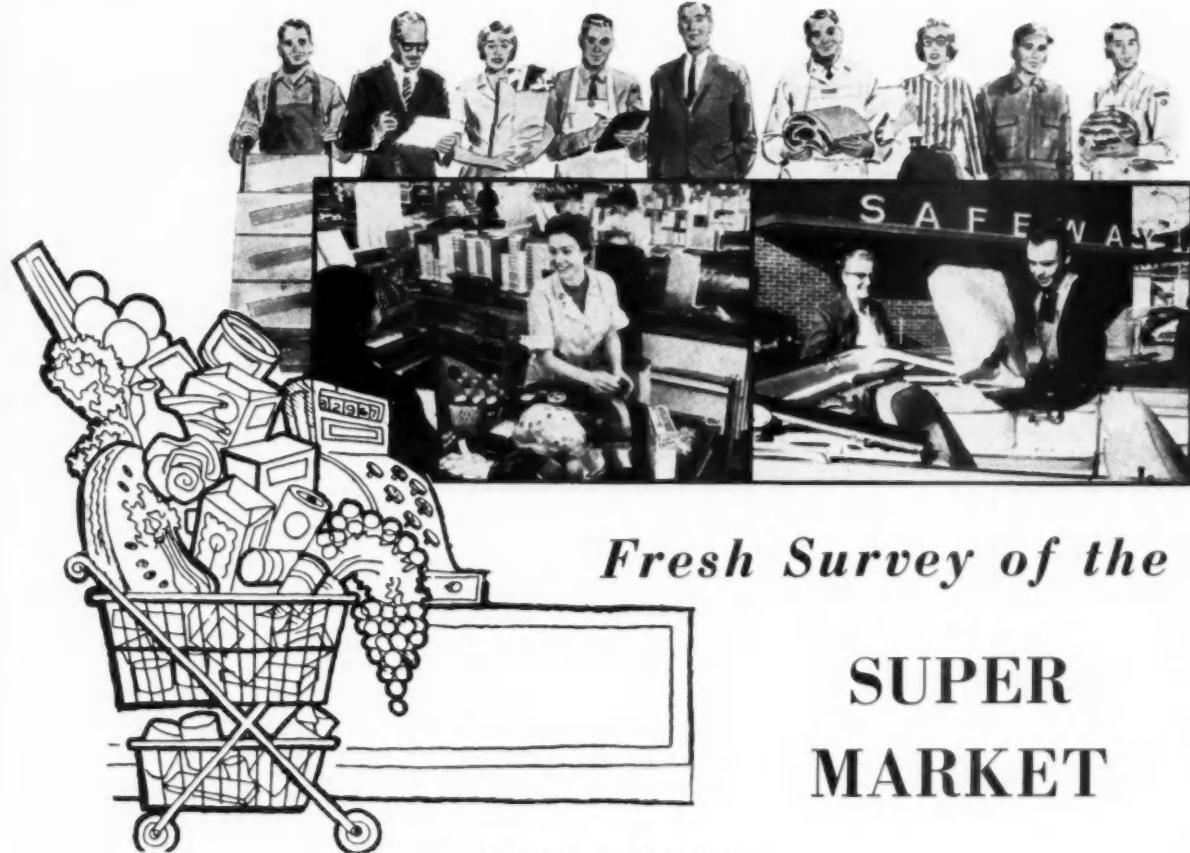
Despite its impressive record, however, Corn Products is better characterized as a company with exceptional earning stability rather than as one with inordinate growing potential. The broad sales base serving over 60 industries and a broad segment of the consuming population tends to minimize sharp fluctuations in the company's year-to-year business, but the steady growth of population and the increasing wealth of both this country and most of the foreign countries served has led to a steady, if moderate, growth in earnings and sales.

Current Sales and Earnings

In the last decade domestic sales climbed from just under \$200,000,000 in 1947 to a record \$304,100,000 in 1956. Total sales including those of foreign subsidiaries, surpassed the \$400,000,000 mark last year. A measure of the importance of these foreign sales is contained in the almost \$6,000,000 in dividend income the company received from overseas sources in 1955 and 1956. This represents a substantial percentage of total net income for each of those years of just about \$21,000,000. Per share earnings, however, have grown at a more modest and more varied pace. Although the overall trend is up, there have been occasional dips but never of sufficient magnitude to threaten the current dividend rate.

The year-end 1956 capitalization of the Corn Products Refining Company consisted of 233,456 shares of 7% non-callable cumulative preferred stock (\$100 par value), and 8,217,830 shares of \$10 par value common stock, along with (Please turn to page 178)

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By JAMES V. BARKLEY

The total gross sales of the ten leading grocery chains has doubled since 1950. With their improved method of distribution, volume of these chains continues to grow, largely at the expense of the smaller and less efficient food retailers. Since food consumption is geared closer to population growth than to overall economic activity, further sales advances seem in prospect for the industry. Furthermore the very nature of the business makes it recession resistant and, if anything, could lead to the large chains garnering a greater share of the food dollar, since they are geared to offer the utmost in value at the lowest cost.

Net profit margins in the food chains are low, being in the neighborhood of from 1% to 2% of gross sales. Since the business is intensely competitive, increasing mark-ups on grocery items is difficult. A few chains, notably Grand Union, are attempting to bolster net through adding non-food lines with the eventuality of becoming a quasi-variety store. (This "poaching on other's preserves" has been going on for a long time. In some cases it has worked out well—in others the effects have been costly.) Impulse items such as some of the proprietary drugs are a natural. When it comes to a general line of hard and soft goods, the problem becomes complicated with changes in consumer shopping habits, new merchandising techniques and mark-

downs, none of which may dovetail with the fast turnover, short profit operation of the food business. It remains to be seen whether the higher profit margins on soft goods will compensate for the smaller sales volume per square foot of allotted space.

Profit margins are more readily stepped up by labor saving devices. Since buying, planning, building and merchandising are cheaper by the dozen, the larger chains have an enormous advantage over small, local competition. Self-operated food processing plants augment income by eliminating the intervening profits between manufacturer and retailer. The master key, however, to increased profits for the food chain is volume, particularly volume per store. Profit squeeze is being relieved due to improving margins resulting from the increased efficiency of the larger units known as "supermarkets". The success of some of the younger chains has been due largely to the construction of king size units in contrast to the less efficient outlets which dominate some of the operations of the older chains—and so successful have some of these newer chains been that now other industries are beginning to cast a covetous eye at the stable earnings of food store operations. A.C.F.-Wrigley Stores, formerly A.C.F.-Brill Motors, purchased a chain of food stores as the first and most important step in the reorganization

of its business; and more recently Arden Farms, a West Coast dairy and milk distributor, acquired the Mayfair Markets on the West Coast. It is too early yet to say that this is a trend, but certainly a precedent has been set, and undoubtedly other firms outside of the food merchandising field will attempt to gain a foothold in this industry.

A possible stimulus to this movement is the high cost of expansion, replacement and rehabilitation of old stores and the constant need for free capital. To stretch finances, inventories must be watched for rapidity of turnover. Various expedients including the popular "leasebacks" have been used by most of the chains to augment their finances, but in the current tight money situation many of the smaller organizations may find it impossible to meet their requirements. Therefore, overtures from outside interests seeking diversification may be welcome.

Valuation Differs Among the Companies

The average 10.2 price earnings ratio of the ten leading companies listed in the accompanying table is not excessive when compared with the average 10.0 ratio for the group over the past decade. And, incidentally, the change is negligible when compared with the 43% advance in the price earnings ratio of other industries over the same period. This fact alone would tend to single out the food chain stocks as relative bargains, but the different price earnings ratios among the various companies indicate that current earnings and potentials vary considerably in the industry. For example, the 13.0 price earnings ratio for Grand Union reflects in large measure its dynamic growth over the past few years and a general belief that this growth will continue in the near future. On the other hand the lower than average 9.7 price earnings ratio of First National Stores reflects not only its conservative management policies, but also the slower rate of population growth in the company's area. Other factors that enter into the differences among the companies of course are the relative rate of sales growth (which naturally favors the smaller, newer firms in the field), the ability and aggressiveness of management and the soundness of finances and simplicity of capitalization.

In considering the various individual issues, **American Stores** is the fourth largest of the major food chains with concentration in Pennsylvania and the Middle Atlantic States. Of its 900 units about 85% are supermarkets. Supermarkets are operated under the names of Acme, Nuway, Market Basket and Food Barn. In addition to handling standard items, company handles a wide variety of foods packaged under its own brand. Prior to World War II, company operated slightly over 2,000 stores of which less than 15% were supermarkets. A gradual policy of transition was put into effect until company's less profitable units have been reduced to around 140. Sales have expanded from \$470 million in 1950 to an estimated \$850 million for the year 1957, a gain of 70%. Present plans are for 87 new markets of which 50 to 60 may be opened in the current fiscal year. Cash payments are low in an effort to maintain working capital. However, over the past four years, the \$2.00 payout has been supplemented with 5% stock at year end. Recently 56 1/2,

Position of

ACF-Wrigley Stores, Inc.	\$138.3 ¹
American Stores	299.1 ³
First National Stores	n.a.
Food Fair Stores	119.4 ⁶
Grand Union Co.	181.1 ⁸
Great Atlantic & Pac. Tea Co.	n.a.
Jewel Tea	201.8 ¹⁰
Kroger Co.	671.5 ¹¹
National Tea	n.a.
Safeway Stores	891.2 ¹¹
Winn-Dixie Stores	69.6 ¹²

n.a.—Not available.

¹—6 mos. ended June 30, 1956.

²—Year ended 6-30-57; fiscal year changed.

³—21 weeks ended August 24.

stock sells at a modest 9.0 times anticipated 1957 earnings of \$6.25 and yields 3.5%.

First National Stores, the seventh largest, operates around 600 stores throughout New England and N. Y. State of which around 70% are self-service. Company supplements standard brands with its own products marketed under the name of Finast. The East with its heavy concentration of grocery stores per capita is extremely competitive, and the area is more apt to require keener pricing along with such merchandising gimmicks as loss leaders and trading stamps. Despite these handicaps, profit margins have been maintained by dint of managerial efficiency, rigid cost controls, and private brands. Growth has been slower than some of the other food chains because of management's unwillingness to borrow capital for expansion. Company's recent branching is away from New England and into New York and Long Island. Its new suburban area stores need not be quite as competitive price-wise, permitting better profit margins. A little over half of its present outlets are supermarkets with 15 to 20 new units scheduled for the current fiscal year. The continuation of its slow but steady growth with a sound capital structure makes the longer term prospects appealing. At its recent price of 49 1/2 stock sells 9.7 times its 1957 earnings of \$5.10. Yield of 5.1% is the highest of the entire group.

Food Fair is the sixth largest food chain with around 280 markets. Major concentration is in Pennsylvania, New Jersey and the rapidly growing west coast of Florida. Company also operates a couple of bakeries, two slaughtering plants, five manufacturing plants and warehouses. 1957's estimated sales of better than \$600 million make a three fold increase since 1950. Nine more units have been added so far this fiscal year with forty more in the planning stage, some located in shopping centers to

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n.a.
201.8¹⁰
671.5¹¹
n.a.
891.2¹¹
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Leading Food Chain Stores

Net Sales 1956 (Millions)	1957	1st 6 Months				Full Year				Price Range 1956-1957	Recent Price	Div. Yield
		Net Profit Margin 1956 %	1957 %	Net Per Share 1956	1957	Earned Per Share 1955	1956	Dividend Per Share Indicated 1956	1957			
\$138.3 ¹	\$326.1 ²	1.4% ¹	1.5% ²	\$.58 ¹	\$1.35 ²	\$.58 ¹	\$1.35 ²	.....	\$ .45 ¹⁴	20 - 13	14	3.2%
299.1 ³	325.9 ³	n.a.	n.a.	n.a.	n.a.	5.49 ⁴	5.81 ⁴	2.00 ¹⁴	2.00 ¹⁴	62 - 45 ¹⁴	59	3.3
n.a.	n.a.	n.a.	n.a.	1.24 ⁵	1.28 ⁵	4.93	4.91	2.40	2.50	61 - 47	50	5.0
119.4 ⁶	131.5 ⁶	1.7 ⁶	1.7 ⁶	.65 ⁶	.69 ⁶	2.68 ⁷	2.62 ⁷	1.00 ¹⁴	1.00 ¹⁴	62 - 35 ³⁴	38	2.6
181.1 ⁸	207.3 ⁸	1.2 ⁸	1.3 ⁸	1.13 ⁸	1.25 ⁸	1.90 ⁹	2.43 ⁹	.60 ¹⁴	.69 ¹⁴	37 ¹⁴ - 25 ¹²	35	1.9
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	16.09 ⁹	19.21 ⁹	7.00	7.00	202 - 149 ¹²	182	3.8
201.8 ¹⁰	215.5 ¹⁰	1.4 ¹⁰	1.6 ¹⁰	1.99 ¹⁰	2.35 ¹⁰	3.49	4.16	2.00	2.00	60 ¹² - 44 ¹⁴	54	3.7
671.5 ¹¹	752.0 ¹¹	1.1 ¹¹	1.2 ¹¹	2.15 ¹¹	2.39 ¹¹	3.83	4.41	2.00 ¹⁴	2.00 ¹⁴	64 ¹² - 43 ¹⁴	60	3.3
n.a.	n.a.	n.a.	n.a.	1.36 ¹¹	1.6 ¹¹	3.41	3.30	2.40	2.00	48 - 36	42	4.7
891.2 ¹¹	950.5 ¹¹	1.1 ¹¹	1.4 ¹¹	2.51 ¹¹	3.41 ¹¹	3.24	6.11	2.40	2.70	82 ¹² - 50 ¹⁴	73	3.6
69.6 ¹²	81.9 ¹²	1.8 ¹²	2.0 ¹²	.21 ¹²	.27 ¹²	1.68 ¹³	1.71 ¹³	.78	.90	27 ¹² - 18 ¹⁴	26	3.4

⁴-Fiscal years ended 3-31-1956 & 1957.

⁵-1st fiscal quar. ended June 30.

⁶-12 weeks ended July 20.

⁷-Years ended April 30, 1956 & 1957.

⁸-6 mos. ended August 31.

⁹-Years ended 2-28 1956 & 1957.

¹⁰-28 weeks ended July 13.

¹¹-24 weeks ended June 15.

¹²-8 weeks ended August 24.

¹³-Years ended June 30, 1956 & 1957.

¹⁴-Plus stock.

be constructed by affiliated Food Fair Properties, Inc. 1957 earnings may better 1956's \$2.54 by around 10%. While profit margins have not kept pace with expanding sales because of rising overall cost and new store expenses, the ambitious expansion program makes the longer term picture intriguing and helps to justify the rich 14.0 price-earnings multiple. At its recent price of 37¹⁴ stock is well down from its 1955 high of 65³⁴. Yield is 2.6%.

Grand Union is the smallest of the group sales-wise. Its 371 outlets are distributed through various Eastern and Middle Atlantic States plus Washington, D. C., Virginia, Florida and Canada. Company augments its business by door-to-door sales routes in 22 states. Smaller inefficient units are gradually being closed and replaced with modern markets. Grand Union is the leading exponent of diversification. Company's recent experimental quasi-variety store with large areas devoted to non-food lines seems successful and is in the process of being expanded. 1957 sales should exceed \$400 million versus \$161 million for 1950, a gain of 148%. Company has a subsidiary which manufactures gravity-fed shelving. Grand Union is also the owner of 1,000,000 shares of Eastern Shopping Centers, Inc., a company engaged in the development of shopping centers in which the Grand Union gets first consideration for choice location. For this fiscal year, forty new markets were scheduled with eleven already in operation. Further impetus to profit margins may be effected through company's program to diversify away from the Eastern area with its heavy concentration in New York and New Jersey. Earnings for fiscal 1957-58 are in the neighborhood of \$2.50 to \$2.75. Price-earnings ratio of 12.9 is higher than the food retailers as a group, but may be justified by company's good record. Yield is 2.1%.

The Great Atlantic & Pacific is by far the largest of the group and, in fact, the largest retailer in the world. Company operates over 4,000 units in the U.S. and Canada, concentrated in the Northeast and Middle West. About 70% of units are self-service and around 67% supermarkets. Besides handling standard brands, the A&P operates bakeries, milk and cheese producing plants, a salmon fishing fleet, canneries, a creamery, coffee roasting plants, laundries and a printing press. Profit margins are maintained through its enormous buying power — and being well entrenched, it is able to avoid gimmicks, such as trading stamps. Rate of sales growth has not kept pace with competition over the 1950 to 1957 period. Estimated sales have risen 48% from \$2.9 billion to this year's estimated \$4.7 billion. Its poorer showing is understandable in view of company's lofty starting base. A&P has experimented with a goodly selection of non-food items with apparent success. Company is not particularly concerned with stockholder relationships, and analysts generally deplore the sparseness of detail in company's reports. But A&P's strong financial position does not require its currying favor with the Wall Street community. Common shares can be considered investment grade. At its recent price of 180, stock sells around 8.9 times anticipated 1957 earnings of about \$20.20 and yields 3.9%.

Jewel Tea is the ninth largest of the major chains. 1957 sales should be in the neighborhood of \$400 million versus \$190 million in 1950, making a seven year sales gain of 111%. Company's stores are concentrated around the Chicago area. Jewel Tea also operates about 2,000 home delivery routes in 22 states which provide about 20% of total sales. The route division is a logical agent for diversification with non-food items sold largely through catalogue comprising forty per

(Please turn to page 177)



THE EDITORS' INVESTMENT CLINIC

Because of the many letters we have been receiving from subscribers who have been holding on to stock too long, and are now asking our advice as to what to do—we have decided that the best way to be of service at this crucial time is to reprint a pertinent letter which includes stocks that have a wide interest. In this way we could render timely service that would be of practical interest to all our readers.

It happens that in this particular case the subscriber's list contains diversified stocks representative of various industries. Our answers therefore, we believe, will be of considerable help as a guide. The letter follows:-

Service Department Manager
THE MAGAZINE OF WALL STREET
90 Broad Street
New York 4, New York

"I wish to thank you for the valuable information and advice your magazine has offered over the years, and as my subscription will shortly expire, I wish to assure you that I intend renewing.

"At various times I have submitted my security holdings, three listed stocks at a time, at reasonable intervals and have found your suggestions both practical and helpful.

"About a year or so ago, when prices were much higher, you recommended sale of my American Radiator, Texas Gulf Sulphur and Industrial Rayon, and also suggested that I accept at least part profits

on some of my blue chips, but as my brokers continued to be highly optimistic, I was reluctant to sell and took no steps to make changes. Thus I have been watching my portfolio shrink substantially in market valuation.

"Your magazine, particularly A. T. Miller in his market outlook, has advocated a cautious and conservative policy for some time and I wish I heeded his sound advice.

"I am most anxious to have the benefit of your counsel at this important period and so am submitting my holdings and would appreciate your recommendations on American Radiator, Texas Gulf Sulphur, Ford Motor, W. R. Grace & Co., Sinclair Oil, General Telephone and Industrial Rayon. Please tell me what you think I can do to adjust my position now."

—E. C., Wichita, Kans.

We have given careful consideration to each of your security holdings, and in the light of the present market and prevailing conditions will do our best to make the practical suggestions you ask.

We are sorry that you did not follow our advice, because the Magazine has been advocating a very careful and realistic policy. As you know, we advised the weeding-out of speculative issues these past few years, and to accept profits on stocks that advanced substantially in price so as to cut down your cost. Also on splits we suggested the sale of sufficient shares so as to enable you to withdraw the original capital, if so desired, or at least a good part of it, so as to average down costs and reduce risks.

Also, in our March 2nd, 1957 issue, we presented an article, "Professional Methods for Protecting Capital", which indicated various defensive devices such as "puts and calls", which are a form of investment insurance designed to preserve profits and avoid losses—to those who did not wish to sell their stocks outright.

What to do now depends of course in a large measure on your position, the cost of the shares to you and what you can afford to do.

American Radiator & Standard Sanitary Corp., is the largest manufacturer of heating and plumbing supplies, with sizable foreign operations, but still the business is somewhat cyclical, depending on the extent of construction and modernization. Earnings have trended downward in the past two years, reflecting smaller residential construction and strikes in some of its plants. The company estimates earnings for 1957 at about \$1.10 per common share compared with \$1.65 in 1956 and \$2.22 in 1955. The quarterly dividend was reduced this year to 25¢ per share and current coverage is narrow. There appears to be an over-productive capacity in the home equipment field accompanied by intensive competition and price-cutting and the near-term outlook does not appear favorable. As these adverse factors appear reflected in the current market price, we suggest temporary retention, but on any moderate improvement we recommend sale. However, to those investors willing to accept the risks involved and who are content to hold for longer term recovery possibilities, we suggest averaging at the proper price when the bear market appears to have run its course.

Texas Gulf Sulphur is the largest domestic producer of sulphur, with exports amounting to about 25% of home production. Its two principal mines in this country are probably gradually being depleted, but the company is developing new properties here and in Mexico,—where however it is meeting intense competition. Earnings have shown a declining trend in recent years, as evidenced by the following figures: 1955, \$3.23 per share, 1956, \$2.81 per share, 1957, estimated at \$2.15 per share. In September, the price of bright sulphur was reduced due to intense competitive markets, and no improvement is indicated over the near or intermediate term. Company's financial position has been good but dividend coverage has narrowed greatly and there is great doubt as to maintenance of the present \$2.00 annual rate. Dividends have been paid consecutively since 1921 but pay-outs in the five years through 1956 averaged 70% of earnings and are higher for its current year. In April, 1957, Gulf Oil Corp. sold its 1,200,759 shares of Texas Gulf Sulphur stock. As the stock has declined substantially from a high of 33 this year to below 20, we recommend retention temporarily at current depressed level, awaiting clarification in this erratic market.

In **Ford Motor Co.**, a breakdown of sales shows about 90% in automotive products, farm implements about 3%, and 7% in defense. Operations are well-integrated as company produces a substantial portion of its steel, iron and glass needs and about half of its component parts. Sales this year may show a gain over 1956, if sales of the new Edsel makes a real contribution to the final quarter. Defense business, which is mainly concentrated in jet

engines, will probably be maintained. Earnings for the first six months of this year rose to \$3.15 per share from \$2.44 in the like period last year. Despite higher wages and operating costs and heavy development expenditures on the new Edsel car, earnings for the full year of 1957 should compare favorably with the \$4.38 a share of 1956. But 1958 is something else. Earnings for that year will depend on public reception of new models, and particularly on sales of the new Edsel. Management is capable and progressive, and although competition in the auto and truck field is intense, Ford should be able to receive its full share of the business available. The stock warrants retention on a long-term basis if one wants to hold it through the declines to which this market is likely to be subject. The \$2.40 annual dividend yields about an average current return.

W. R. Grace & Co. is a holding and operating company and with its subsidiaries and affiliates is engaged in a wide range of businesses both at home and in South America. Principal fields are transportation (air and shipping), chemicals (of recent origin), mainly in the United States—as well as banking and finance. Last year's volume breakdown ran as follows: domestic chemicals 23%, foreign operations 36%, export-import trade 19%, shipping 16%, outdoor advertising and other domestic business 5%. Expansion in recent years has been both internally and through acquisitions. Sales and earnings in recent years have increased, reflecting to a good extent the expansion in chemicals. Earnings this year should hold fairly close to the \$4.30 reported in 1956. Capital expenditures have been substantial and an aggressive diversification and expansion program is enhancing the longer term growth prospects. This is an offset to the foreign and shipping interests of the company which are somewhat speculative in character. Management is regarded as experienced and progressive. The stock is well diversified in important categories, and has attraction on a long-term basis. We therefore recommend retention, having in mind its progressive and able management. Holders of this stock must decide for themselves whether they wish to carry it through the thick and thin of economic vicissitudes in the offing.

Sinclair Oil Corp. is mainly a refiner, marketer and transporter of petroleum products. It produces only about one-third of the crude oil that it refines, and ranks eighth in total domestic refining capacity. Its crude position will be improved by its development project in Venezuela. Earnings for 1957 are estimated at \$5.72 a share compared with \$5.98 in 1956 and \$5.68 in 1955. The \$3.00 annual dividend seems secure. But restrictions on all imports of crude oil provide problems, particularly in the indicated reduction of about 12,600 barrels a day. While the stock has a measure of appeal in view of upgrading of operations and extensive pipeline systems, however, the rate of annual increase in petroleum consumption for 1958 is now estimated at about 2.3% as compared to the normal yearly increase of between 4% and 5%. It would appear that investments in the petroleum industry at this time should be carefully scrutinized, depending of course upon the price you paid for the shares. There is an old market axiom which says that "you always get burnt in turning against the" (Please turn to page 165)



FOR PROFIT AND INCOME

Selectivity

Stock groups which have shown better-than-average resistance to the market's recent further decline are mostly those which are normally slow-movers anyway or which had been relatively depressed for some time. They include confectionery, electric utilities, metal and glass containers, finance companies, baking, banks, dairy products, food brands, insurance stocks, food stores, department stores, variety chains, paper, shoes, soaps, sulphur, textiles and tobaccos. In general, consumer-goods issues are getting better support than capital-goods stocks. Groups showing marked weakness are principally those which have hitherto been doing so throughout the slide from last July's top. Some examples are aircraft, aluminum, building materials, coal, copper, machinery, metal fabricating, oils, radio-television, rails, rail equipments and steels.

Firm Stocks

Not many stocks can be more than partially immune to a market decline of the magnitude we have now seen. A few remain close to their best 1957 levels.

More, while down materially from their highs, have either held well or given up only a little more ground, on balance to date, over the last several weeks. Examples of firm or relatively firm issues include American Bakeries, American Chicle, Borden, American Tobacco, Corn Products, Penick & Ford, C. I. T. Financial, Duquesne Light, Family Finance, Pacific Lighting, National Biscuit, National Dairy, Public Service of Indiana, Quaker Oats, Reynolds Tobacco and Southwestern Public Service.

Box Score

In terms of changes made by

individual companies, there was some further deterioration in the dividend news in September, but not a great deal. Payments were omitted or reduced by 19 companies, against 12 in the same 1956 month. The number of increases or extras totalled 106, against 114 a year ago. Total dollar payments so far this year have run about 4% over a year earlier. Allowing for fewer or smaller year-end extras, the full-year gain, if any, will be slight. Indicated dividends on the Dow industrial average for the first 9 months of 1957 are \$14.70, against \$14.82 a year ago.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

	1957	1956
Middle South Util. & subs.	\$1.64	\$1.34
Norfolk & Western Rwy.	5.02	4.30
Winn-Dixie Stores	.27	.21
Manati Sugar Co.	1.75	.62
Anderson, Clayton Co.	4.76	3.82
Gimbels, Inc.	.75	.60
Continental Motors Corp.	.83	.21
Cosden Petroleum	.68	.57
Southwestern Public Service	1.77	1.48
Jewell Tea Co.	2.35	1.99

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Rails

Railroad carloadings so far this year have run materially under the levels of a year ago and two years ago, despite somewhat higher levels of industrial production. Why? The answer is obvious. The successive boosts in freight rates have shifted some traffic to common-carrier trucks and induced more and more business concerns to establish or enlarge their own truck fleets. The rail industry has desperately needed the rate relief, and probably will have to seek more—which would divert still more traffic, especially to company truck fleets. Rail stocks are largely depressed and could have a sizeable year-end rally. We would not suggest the gamble of buying them. A rally would invite disposal at least of shares of weaker roads. The rail field remains a generally unpromising one for long-range investment.

Some Insurance Stocks

Casualty insurance stocks rose about in line with the market, fire insurance stocks less than the market, to their 1955 tops. They have since had wide declines and are at largely deflated levels. There have been, and are, plenty of things the matter with the business. Windstorm losses were unusually heavy in recent years, especially in 1954 and 1955. Apart from natural disasters, however, underwriting losses continue. That is most importantly so on fire coverage and auto liability and property damage insurance. Inflation has boosted the dollar total of claims, while premium revenue has lagged behind this trend because rates are regulated in each state and obtaining adjustments takes considerable time. However, considerable overall progress in rate relief is now being made and more can be ex-

pected. Abatement of inflation should check or slow the rise in claims. Poor this year, underwriting results probably will be better in 1958. Meanwhile, investment income, mainly from bonds and stocks, is at a record level and continued growth of it is indicated. Dividends are well covered by investment income and thus generally secure. Current yields—4.5% to 5% in most cases—are the highest in many years. Portfolio values have fallen, in line with the bond and stock markets, thus paring stockholders per-share equity; but it remains generally far above the present prices of the stocks. The issues are in a sound long-term buying range for patient investors; but need for hurry is not evident and the possibility of moderate further decline cannot be ruled out. Among the better issues are Continental Insurance, Fidelity-Phenix and Hartford Fire Insurance.

Good News

In the present market good news is scarce and, therefore, all the more welcome. One of the cheerful recent developments was the boost in the dividend of Reynolds Tobacco from a \$3.20 to a \$3.60 rate. It did not surprise us, since we had previously forecast an increase on that order by late 1957 or early 1958. It makes the fourth increase in four years. Those who bought the stock on our earlier or more recent advices are assured of an excellent return and have moderate profits. The issue is now around 59, yielding over 6% on the new basis. We would certainly stay with it, since there is no reason to think that longer-range possibilities have been exhausted; and we still rate it as a better-than-average buy for conservative investment purposes.

Dubious

Gasoline inventories are moderately excessive and threaten to rise further. With the heating season hardly more than started, stocks of light fuel oil are about 12% above a year ago, and definitely excessive. There is excess also in inventories of heavy fuel oil and kerosene. The pressure on prices of refined products is downward, and there have been a few fringe cuts in crude oil prices. Given about normal winter weather, the industry will face more trouble unless refinery runs are curtailed more sharply than has been so to date. An abnormally cold winter could change the picture importantly for the better. A mild winter would put the industry really "in the soup", by extending the readjustment problems at least well into 1958. We would not sell long-pull oil-stock holdings here, but the medium-term outlook is too uncertain to justify new buying at present, despite the sharp markdown in prices of the stocks.

Deflated?

Some popular stocks may seem deflated—if you forget how inflated they were at the highs. To illustrate, Dow Chemical is off 40% from its 1956 top, at which it sold around 38 times earnings of \$2.15 a share for the latest fiscal year. But it is still priced at over 23 times earnings. Of decisive importance, profit growth has been interrupted for some time, and resumption of it is "around the corner". In a nutshell: present earning power represents a net growth of around 7% over the last six years, but the stock remains over double its average 1950 price. Similar considerations apply to many stocks. A big decline does not necessarily make them cheap. Whether they are attractive hinges on the relation of present price to earnings and the prospective profit-dividend trend in nearby years.

Wait a While

Our general advice to seekers of capital gain is to hold the available cash for a while. Some opportunities could develop in selected stocks within nearby weeks, if they sag significantly further on tax selling. We will be watching for them.

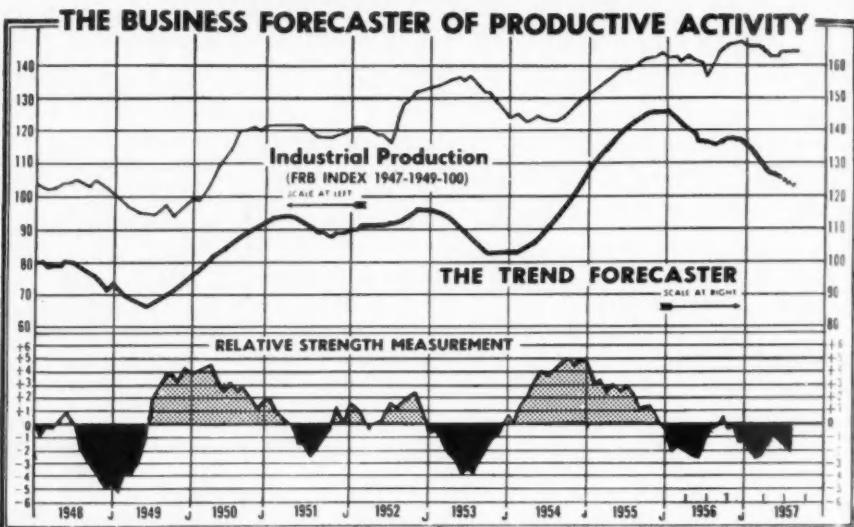
END

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
Allied Stores Corp.	Quar. July 31	\$.27	\$.45
Pennsylvania R.R.	8 mos. Aug. 31	1.26	2.07
Associated Dry Goods	Quar. Aug. 3	.12	.25
Celatex Corp.	9 mos. July 31	2.84	4.97
Chickasha Cotton Oil	Year June 30	.37	1.01
Carrier Corp.	9 mos. July 31	2.40	3.25
Neisner Brothers	6 mos. June 30	.05	.20
Oliver Corp.	Quar. July 31	.02	.26
Illinois Central R.R.	7 mos. July 31	2.63	4.06
Pet Milk Co.	Quar. June 30	1.23	1.87

the Business

Business Trend Forecaster*



*With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

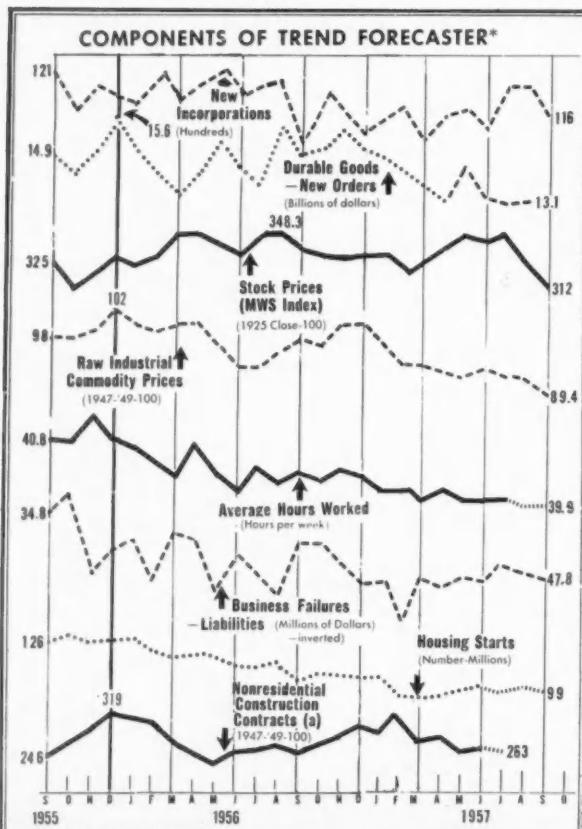
We believe that subscribers will find our *Business Trend Forecaster* of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

In the most recent months for which figures are now available, the components of the Trend Forecaster have continued to call for caution.

Four of the most significant indicators in the group of eight remain in a clearly negative trend. Stock prices have declined notably in August, September and early October. New orders in durable goods lines, after declining almost continuously in the first half of 1957, have remained at a low ebb. Average hours worked in manufacturing industries — a series with a consistent record for presaging the business trend — subsided in August and showed no improvement in September. And raw commodity prices have also worked almost steadily lower ever since the start of the year. The remaining four series — new incorporations, business failures, and the two construction series — have behaved more or less erratically. Three of the four rose in the second quarter, and two (new incorporations and housing starts) were higher in September than in June.

The net balance of these trends has left the *Relative Strength Measure* negative throughout the year, and currently at a level of about minus 2. We continue to interpret the drawn-out decline of the *Trend Forecaster* itself as requiring a sober view of forthcoming business conditions.



(*). —Seasonally adjusted except stock and commodity prices.
(a) —3 month moving average.

S Analyst

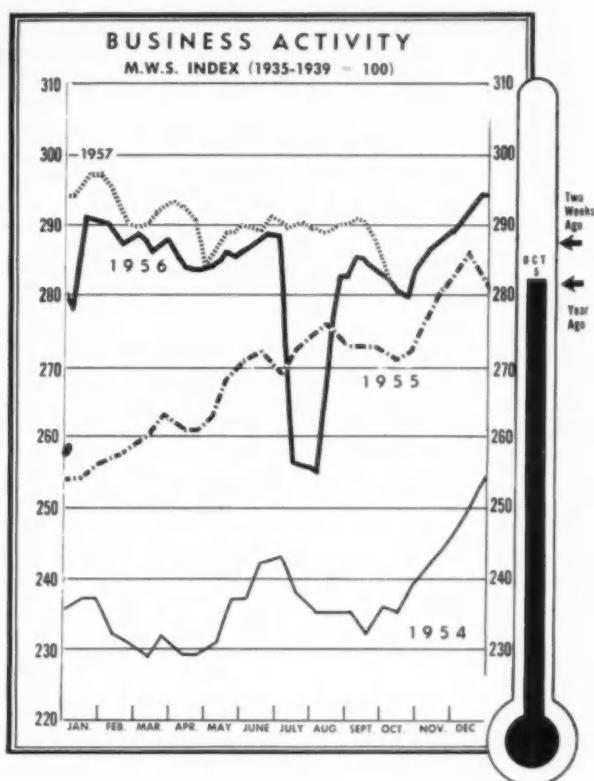
CONCLUSIONS IN BRIEF

INDUSTRY — production activity in a slow decline across a broad range of durable goods industries — both finished goods (machinery, consumer durables) and raw materials (steel, nonferrous metals). Soft goods production stable, but signs of weakness here and there. Outlook: further decline into 1958.

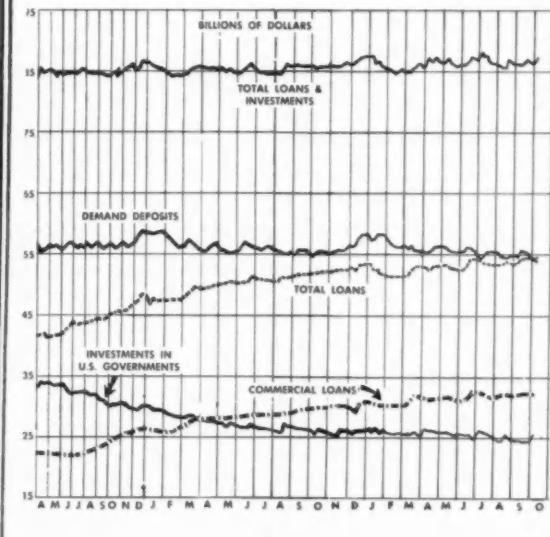
TRADE — after a very good summer, the pace has slowed somewhat, partly owing to unseasonable weather in September. Consumer durable sales and apparel sales both disappointing in recent weeks. Outlook: good but not sensational Fall business.

MONEY AND CREDIT — beginning of ease? Bank loans have failed to rise seasonally this fall; business demand for funds for inventory and capital spending now in downtrend; net demand for consumer credit stable at a moderate level.

COMMODITIES — mild price weakness continues, further sapping the strength of general wholesale price level. Note cut in steel plate prices, first such reduction in years. Reason: abundance. Outlook: gradual further decline in raw materials, spreading to finished goods.



MONEY AND BANK CREDIT (WEEKLY REPORTING MEMBER BANKS)



In the past several weeks, the general tenor of American business conditions has clearly deteriorated. In the statistics on output, prices, earnings, employment — indeed, in virtually all major categories of business information — is revealed the broad conditions of incipient recession. Unless these trends are decisively reversed in the next several weeks, cautious conservatism is the only possible attitude toward business in 1958.

In the first six months of 1957, business trends were cautionary, but indecisive. While it was obvious that something of importance was developing in capital goods industries, and while consumer durables industries were having their own troubles, it remained possible that several offsetting strengths would be present in late 1957 and early 1958. These offsets were residential building, which was expected to surge upwards after some ameliorating legislation; inventory demand, which was expected to recover after liquidation early in 1957; and defense spending, which was expected to continue rising indefinitely.

None of these offsets has appeared in any significant degree. Inventory, it turns out, was not successfully liquidated in the first half of the year, and is thus no strength for the last half. Housing demand has not blossomed in the expected manner; and defense spending has been subjected to the most vigorous and determined control since 1953. And while these prospective strengths have been vitiated, the weaknesses of early 1957 appear to have waxed, rather than waned. By all indications, the demand

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND

INDUSTRIAL PRODUCTION* (FRB) —

Durable Goods Mfr.
Nondurable Goods Mfr.
Mining
1947-'9-100

RETAIL SALES* —

Durable Goods
Nondurable Goods
Dept' Store Sales
1947-'9-100

MANUFACTURERS'

New Orders—Total*
Durable Goods
Nondurable Goods
Shipments*
Durable Goods
Nondurable Goods

BUSINESS INVENTORIES, END MO.*

Manufacturers'
Wholesalers'
Retailers'
Dept. Store Stocks

CONSTRUCTION TOTAL*

Private
Residential
All Other
Housing Starts*—a
Contract Awards, Residential—b
All Other—b

EMPLOYMENT

Total Civilian
Non-Farm
Government
Trade
Factory
Hours Worked
Hourly Earnings
Weekly Earnings

PERSONAL INCOME*

Wages & Salaries
Proprietors' incomes
Interest & Dividends
Transfer Payments
Farm Income

CONSUMER PRICES

Food
Clothing
Housing

MONEY & CREDIT

All Demand Deposits*
Bank Deposits*—g
Business Loans Outstanding—c
Installment Credit Extended*
Installment Credit Repaid*

FEDERAL GOVERNMENT

Budget Receipts
Budget Expenditures
Defense Expenditures
Surplus (Def) cum from 7/1

Unit

Latest Month Previous Month Year Ago

1947-'9-100	Aug.	144	144	143
1947-'9-100	Aug.	162	162	158
1947-'9-100	Aug.	131	130	130
1947-'9-100	Aug.	128	127	130
\$ Billions	Sept.	16.7	17.0	15.9
\$ Billions	Sept.	5.6	5.7	5.3
\$ Billions	Sept.	11.1	11.3	10.5
\$ Billions	Sept.	133	132	129
\$ Billions	Aug.	27.2	27.3	31.1
\$ Billions	Aug.	13.1	13.0	17.3
\$ Billions	Aug.	14.1	14.3	13.7
\$ Billions	Aug.	28.6	29.0	27.6
\$ Billions	Aug.	14.2	14.6	13.7
\$ Billions	Aug.	14.4	14.5	13.9
\$ Billions	Aug.	91.2	91.0	86.6
\$ Billions	Aug.	54.1	54.1	50.4
\$ Billions	Aug.	12.8	12.7	12.5
\$ Billions	Aug.	24.2	24.1	23.7
\$ Billions	Aug.	143	143	141
\$ Billions	Sept.	4.6	4.6	4.4
\$ Billions	Sept.	3.1	3.1	3.1
\$ Billions	Sept.	1.6	1.6	1.6
\$ Billions	Sept.	1.5	1.5	1.5
Thousands	Sept.	990	1,010	1,008
\$ Millions	Aug.	1,284	1,287	1,729
\$ Millions	Aug.	1,534	1,614	1,224
Millions	Aug.	69.0	70.2	68.9
Millions	Aug.	52.8	52.6	52.3
Millions	Aug.	7.1	7.1	7.0
Millions	Aug.	11.5	11.5	11.2
Millions	Aug.	13.0	12.8	13.3
Hours	Aug.	39.9	39.7	40.3
Dollars	Aug.	2.07	2.07	1.98
Dollars	Aug.	82.59	82.18	79.79
\$ Billions	Aug.	347	346	329
\$ Billions	Aug.	242	241	229
\$ Billions	Aug.	52	52	50
\$ Billions	Aug.	32	31	30
\$ Billions	Aug.	21	21	19
\$ Billions	Aug.	16	16	15
Aug.	121.0	120.8	116.8	
Aug.	117.9	117.4	113.1	
Aug.	106.6	106.5	105.5	
Aug.	125.7	125.5	122.2	
\$ Billions	Aug.	106.8	108.0	106.2
\$ Billions	Aug.	83.6	86.0	79.9
\$ Billions	Aug.	32.0	31.7	29.2
\$ Billions	Aug.	3.6	3.5	3.4
\$ Billions	Aug.	3.3	3.4	3.1
\$ Billions	Aug.	5.1	3.1	5.0
\$ Billions	Aug.	5.9	6.3	5.9
\$ Billions	Aug.	3.9	3.6	3.5
\$ Billions	Aug.	(4.1)	(3.3)	(3.0)

PRESENT POSITION AND OUTLOOK

for capital goods is now declining—not precipitously, but certainly at a considerable rate. Consumer durables lines, far from having completed an adjustment, appear to be headed into still stormier weather, new automobile models notwithstanding. And the problems of these industries have been further aggravated by an apparently developing decline in the export market for U.S. goods.

On these grounds, the forecasts of an upturn in late 1957 which were so popular six months ago have largely evaporated. In their place has arisen a mildly recessionary psychology—an attitude of expecting decline, and awaiting further evidence as to its possible severity.

* * *

INVENTORIES — there are three ways of looking at manufacturing inventory statistics, and it is time to look at them in all three ways.

In dollar amount, they come to about \$54 billion, roughly \$4 billion more than a year ago. Something like half of this increase is owing to higher prices, rather than to higher physical holdings. Viewed this way, they do not look too heavy—there is a slight excess in durables lines, where most of the growth in inventory has occurred, and a slight deficiency in soft-goods lines.

A second way of looking at them is in terms of an inventory-sales ratio. In this form, the statistics lead to the same conclusion; the ratio for durables manufacturing appears to be slightly high, and nondurables slightly low. In neither case is the ratio anywhere near as high as it was in late 1953 or early 1954, when an "inventory recession" was in progress.

A third way is to relate inventories to the inflow of new orders to manufacturing businesses. And here the evidence is much more cautionary. Relative to new orders, inventories in durables industries now look notably high. Unless the rate of orders improves materially in the next two months, considerable further pressure to reduce inventories is almost inevitable.

* * *

DEFENSE SPENDING — second-guessing whether the announced cutbacks in defense will effectively curb defense spending has now become a favorite game of business and investment analysts, and the game has been made fascinatingly complicated by the presence of "sputnik" overhead. One school of thought is that "sputnik" has wiped out any hope that

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and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1957		1956	
	II Quarter	I Quarter	IV Quarter	II Quarter
GROSS NATIONAL PRODUCT	434.3	429.1	426.0	410.8
Personal Consumption	278.9	276.7	272.3	265.0
Private Domestic Invest.	65.0	62.7	68.5	65.3
Net Foreign Investment	3.5	4.1	2.4	1.2
Government Purchases	86.9	85.6	82.8	79.3
Federal	51.1	50.3	49.0	46.4
State & Local	35.8	35.3	33.9	32.9
PERSONAL INCOME	342.4	337.7	334.5	325.3
Tax & Nontax Payments	42.9	42.2	40.5	39.5
Disposable Income	299.5	295.5	294.0	285.8
Consumption Expenditures	278.9	276.7	272.3	265.0
Personal Saving ^(d)	20.6	18.9	21.7	20.8
CORPORATE PRE-TAX PROFITS*	43.9	45.6	42.4	
Corporate Taxes	22.4	23.3	21.6	
Corporate Net Profit	21.5	22.3	20.7	
Dividend Payments	12.4	11.5	12.0	
Retained Earnings	9.1	10.8	8.8	
PLANT & EQUIPMENT OUTLAYS	37.3(e)	36.9	36.5	34.5

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index ^(a)	1935-'9-100	Oct. 5	282.2	285.0	281.9
MWS Index—per capita ^(a)	1935-'9-100	Oct. 5	213.8	215.9	217.8
Steel Production	% of Capacity	Oct. 12	81.6	82.6	100.9
Auto and Truck Production	Thousands	Oct. 5	33	62	80
Paperboard Production	Thousand Tons	Oct. 5	299	301	281
Paperboard New Orders	Thousand Tons	Oct. 5	404	295	377
Electric Power Output ^(b)	1947-'49-100	Oct. 5	222.3	224.6	218.2
Freight Carloadings	Thousands Cars	Oct. 5	748	739	815
Engineering Constr. Awards	\$ Millions	Oct. 10	324	333	390
Department Store Sales	1947-'9-100	Oct. 5	127	130	127
Demand Deposits ^(c)	\$ Billions	Oct. 2	54.0	54.8	54.9
Business Failures	Number	Oct. 5	261	278	253

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1957 Range		1957		(Nov. 14, 1936 Cl.—100)	1957 Range		1957	
	High	Low	Oct. 4	Oct. 11		High	Low	Oct. 4	Oct. 11
	300 Combined Average	346.6	285.9	302.7		415.9	334.7	355.4	334.7
4 Agricultural Implements	282.4	217.2	233.5	217.2L	4 Gold Mining	726.2	594.2	633.8	594.2L
3 Air Cond. ('53 Cl.—100)	122.8	90.7	95.3	90.7L	4 Investment Trusts	184.5	150.5	160.2	150.5L
9 Aircraft ('27 Cl.—100)	1388.8	882.6	882.6	896.8	3 Liquor ('27 Cl.—100)	1094.5	875.6	925.4	875.6L
7 Airlines ('27 Cl.—100)	1022.5	591.5	641.6	591.5L	9 Machinery	523.4	379.7	415.6	379.7L
4 Aluminum ('53 Cl.—100)	464.5	299.8	325.2	299.8L	3 Mail Order	174.6	152.4	155.8	152.4L
6 Amusements	172.6	133.9	141.4	133.9L	4 Meat Packing	142.6	109.0	114.6	109.0
9 Automobile Accessories	384.4	313.2	388.1	313.2L	5 Metal Fabr. ('53 Cl.—100)	198.3	154.5	164.0	154.5L
6 Automobiles	54.3	43.3	46.2	43.3L	10 Metals, Miscellaneous	420.9	323.8	335.9	323.8L
4 Baking ('26 Cl.—100)	29.7	26.3	28.1	27.3	4 Paper	1060.1	800.3	841.8	800.3L
3 Business Machines	1285.3	956.2	1028.2	976.8	22 Petroleum	914.4	692.0	757.9	692.0L
6 Chemicals	652.3	514.6	550.5	514.6L	21 Public Utilities	263.6	239.0	243.9	239.0L
4 Coal Mining	25.1	18.5	20.1	18.5L	7 Railroad Equipment	91.4	65.3	72.2	65.3L
4 Communications	106.0	85.0	90.7	85.0L	20 Railroads	72.7	51.5	55.8	51.5L
9 Construction	126.8	101.9	110.6	101.9L	3 Soft Drinks	509.8	436.9	445.5	436.9L
7 Containers	799.9	724.4	762.1	724.4L	12 Steel & Iron	393.0	279.0	306.5	279.0L
7 Copper Mining	307.6	201.0	213.2	201.0L	4 Sugar	116.9	97.9	107.4	98.8
2 Dairy Products	112.4	103.8	112.4	110.2	2 Sulphur	926.7	622.0	622.0	622.0L
6 Department Stores	89.2	80.1	84.2	82.6	11 Television ('27 Cl.—100)	36.0	28.2	30.2	28.2L
5 Drugs-Eth. ('53 Cl.—100)	259.2	175.2	224.5	211.7	5 Textiles	149.9	107.9	114.9	107.9L
6 Elec. Eqp. ('53 Cl.—100)	244.4	190.1	201.4	190.1L	3 Tires & Rubber	197.6	160.3	165.9	160.3L
2 Finance Companies	584.5	525.0	557.6	536.2	5 Tobacco	101.5	87.0	101.5	96.4
6 Food Brands	280.2	253.2	261.3	253.2L	2 Variety Stores	273.7	253.0	255.6	253.0L
3 Food Stores	183.9	153.8	182.2	172.2	15 Unclassif'd ('49 Cl.—100)	168.9	146.3	152.3	146.3L

H—New High for 1957.

L—New Low for 1957.

PRESENT POSITION AND OUTLOOK

defense outlays will be subjected to the major reduction that appeared to be in store for them a month ago. Another school holds that the appearance of reductions a month ago was not a reality, and that it was never likely that defense could be cut much in the course of a cold war, "sputnik" or no "sputnik."

There remains a good-sized minority that holds that the announced plans for reductions to a \$38 billion annual rate for the defense department will stick, "sputnik" or not, and that the Administration is now rating tax reduction around mid-1958—based on lower spending—as a vital stimulant to the national economy. This column holds to the latter view; despite Congressional hubbub, defense outlays are likely to be held in tight rein over the next year.

* * *

PERSONAL LOANS—over the past year, this formerly small category of instalment indebtedness has risen another 15%, and is now almost as large as the debt on non-automotive consumer durables. It is now about half as large as automobile debt. And percentage wise, it is the fastest growing component of all consumer obligations. This is "exhaust-valve debt"; layoffs and declining overtime tend to make it go higher, rather than lower.

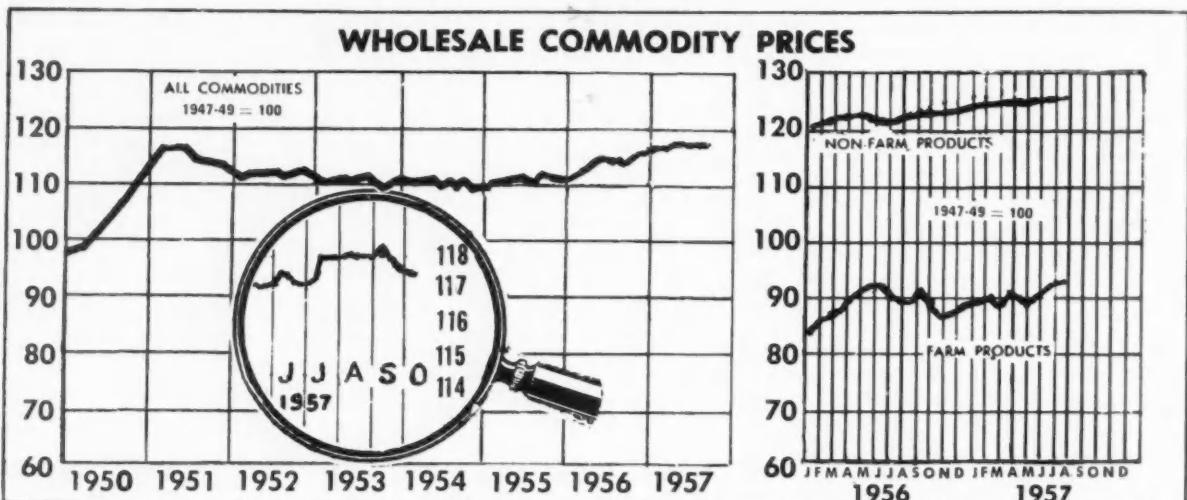
Trend of Commodities

SPOT MARKETS—Steady attrition in sensitive commodity prices continued unabated in the two weeks ending October 11 and the Bureau of Labor Statistics' index of 22 such commodities fell 1.4% to close at 84.6. At this level it had penetrated the post-Korean low of 85.4, reached in October, 1953. All the components of the index were lower in the latest two weeks. Metals led the decline, dropping 4.4%. Raw industrial materials were off 1.6%, reflecting not only the sell-off in metals but also lower quotations for hides, rosin and rubber.

Unrelieved weakness in leading industrial commodities is usually an early sign of a business downturn. Certainly, producers will be in no hurry to replace inventory in a falling market and profit margins will be adversely affected by the drop in prices.

FUTURES MARKETS—Futures markets followed divergent trends in the two weeks ending October 11. Most farm products were higher but corn and cotton declined. Industrial materials mainly favored the downside and wool tops declined precipitously.

Wheat prices firmed and the December option added 2 1/4 cents in the two weeks ending October 11. A U.S. Agriculture Department report indicating that movement of wheat into the loans was accelerating, induced forward buying. Present loan level is equivalent to about \$2.26 in Chicago including storage charges to December and this compares with a price of \$2.18 1/2 for the December future. Farmers thus have an incentive to place wheat in the loan and this is an important support factor.



BLS PRICE INDEXES 1947-49=100

	Date	Latest Date	2 Wks Ago	1 Yr Ago	Dec. 6 1941
All Commodities	Oct. 8	117.5	117.7	115.6	60.2
Farm Products	Oct. 8	91.2	90.3	88.4	51.0
Non-Farm Products	Oct. 8	125.5	125.7	123.6	67.0
12 Basic Commodities	Oct. 11	84.6	85.8	90.6	53.0
9 Foods	Oct. 11	81.7	82.2	81.0	46.5
13 Raw Ind'l. Materials	Oct. 11	86.5	88.2	97.7	58.3
5 Metals	Oct. 11	91.8	96.0	124.0	54.6
4 Textiles	Oct. 11	78.8	79.7	81.3	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS 1923-1925 AVERAGE=100

AUG. 26, 1939=63.0 Dec. 6, 1941=85.0

	1957	1956	1953	1951	1945	1941
High of Year	166.3	169.8	162.2	215.4	98.9	85.7
Low of Year	151.2	163.1	147.9	176.4	96.7	74.3
Close of Year	165.5	152.1	180.8	98.5	83.5	

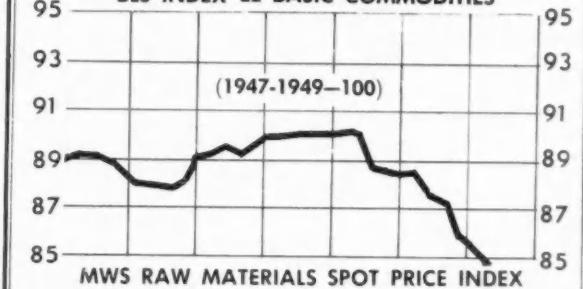
DOW-JONES FUTURES INDEX

12 COMMODITIES

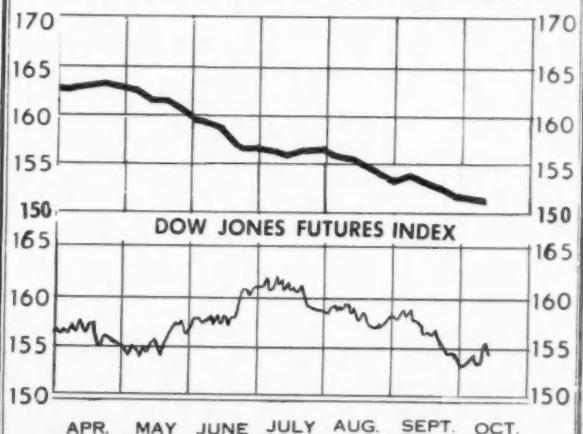
AVERAGE 1924-1926=100

	1957	1956	1953	1951	1945	1941
High of Year	163.4	166.7	166.5	214.5	106.4	84.6
Low of Year	153.8	149.8	153.8	174.8	93.9	55.5
Close of Year	162.7	166.8	189.4	105.9	84.1	

BLS INDEX 22 BASIC COMMODITIES (1947-1949=100)



MWS RAW MATERIALS SPOT PRICE INDEX



Investment Clinic

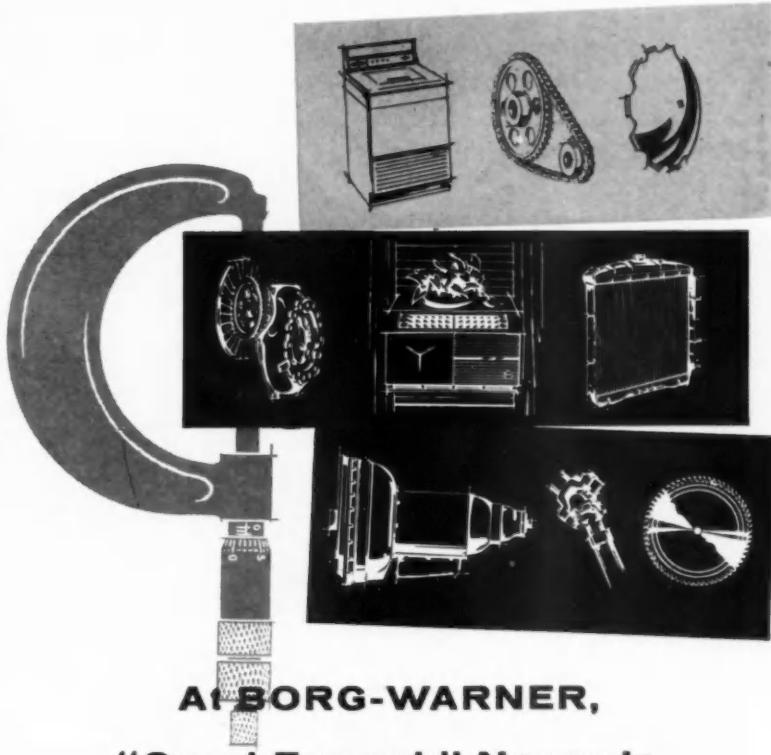
(Continued from page 157)

oils". However, we are living in a different kind of world today—a world that calls for discriminating caution.

Industrial Rayon Corporation has been feeling the pinch for some time, although it is one of the largest factors in the rayon industry and a particularly low cost producer. Annual capacity has been increased to approximately 135,000,000 lbs., chiefly for tire cord and fabric, with about one-third for knitted rayon fabric. The company is also producing nylon staple with a 6,000,000 lb. annual capacity and has installed equipment to produce nylon filament yarn for tire cord and other industrial uses. Profit margins were fairly stable for some years but in 1956 declined sharply on lower volume and prices, particularly for rayon tire yarn, which met increasing competition from nylon. Earnings in 1956 declined sharply to \$2.45 per share from \$5.77 in 1955 and a further decline is indicated in the current year to about \$1.45 per share. The highly competitive situation in the tire yarn field does not indicate any near-term improvement, but the growing use of nylon tires suggests some recovery over the longer-term. Dividends have been reduced from 75¢ quarterly to 25¢ quarterly and earning coverage continues narrow. Since the price of the shares has declined very sharply, we suggest that retention may be warranted, and for those who are willing to take a longer range position the stock can be averaged at the proper price, when the market has run its course during the next two years.

General Telephone Corp. (New York) is the largest independent telephone system in the country. The company has expanded through internal growth and acquisitions with about 2,900,000 telephones in service. Earnings for 1957 are estimated at \$3.12 per share, compared with \$3.05 in 1956. If revenues from service should continue to grow and manufacturing operations accelerate, earnings can be maintained and grow with the general economy. The \$2.00 annual dividend seems secure.

—END



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"Good Enough" Never Is

Whether it's a refrigerator or washing machine, automatic transmission or timing chain, plow disc, aircraft fuel pump, guided missile booster, nuclear pump, or any of the hundreds of Borg-Warner products . . . in each one you see the fine quality that reflects the special pride we take in making it.

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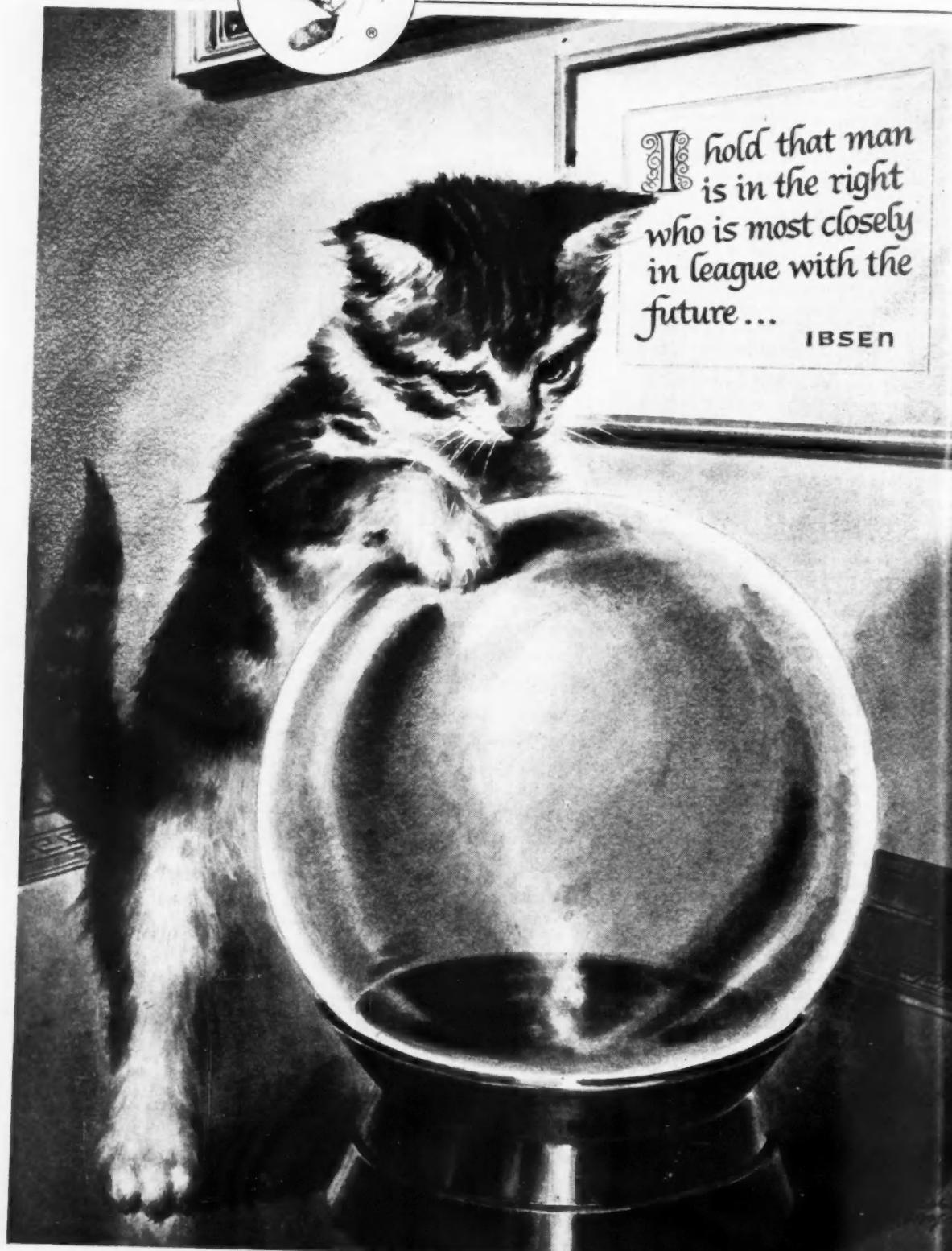
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WHAT MAKES CHESSIEAI

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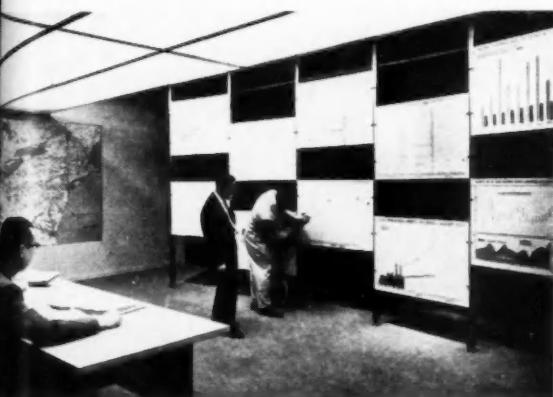
Ch

Chessie's crystal ball

Everybody is interested in looking into the future. In the modern business world it is not only a matter of interest, but an economic necessity.

Long-range planning is particularly important to Chesapeake and Ohio. You don't build piers, yards, and bridges overnight. You can't pick up cars and locomotives at the hardware store. These things have to be planned and ordered years in advance.

For example, the increasing volume of coal exported through the port of Newport News has been possible because plans and decisions were made more than two years ago to enlarge C & O's coal handling



This chart room in C&O's headquarters, called the "financial weather bureau," records daily, weekly, monthly and yearly accomplishments and projects future trends for management planning.

facilities there. This year, more than 23,000,000 tons of export coal will move through this port, establishing an all-time record.

Another shipping record is in prospect this year at Toledo where Great Lakes vessels will load about 17,000,000 tons at Chesapeake and Ohio's three coal piers. Keeping "in league with the future", C & O has just started another huge pier there to handle the growing lake coal movement.

When the charts first pointed to an upward trend in ore imports, C & O blueprinted a bulk cargo pier with an eight million ton annual capacity. This new facility at Newport News has just begun operation.

By charting trends in the great industries it serves — automobile, chemical, steel, construction, glass, paper, coal and many others—Chesapeake and Ohio anticipates their needs and provides them with the freight cars, locomotives, signal systems, tracks and yard facilities needed for the best in transportation service.

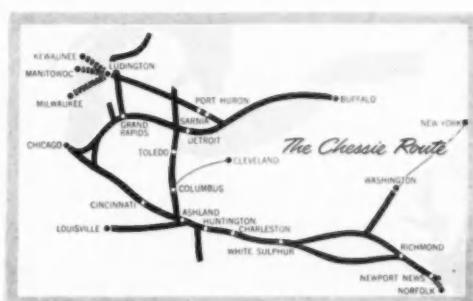
It is this same habit of thinking ahead that made C & O the first railroad to install a large scale electronic computer system. First with a system-wide, all-teletype Car Location Information Center — CLIC for short. First with the electronic hot box detector.

Thinking in tune with the future is one of the things that keeps Chessie's railroad growing and going.

Would you like a Chessie portfolio of pictures — Chessie, Chessie's family, and Peake, Chessie's Old Man? Write to:

Chesapeake and Ohio Railway

3807 TERMINAL TOWER, CLEVELAND 1, OHIO



Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at reasonable intervals.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Harris-Intertype Corp.

"As a subscriber to your magazine, I have not observed any recent information on Harris-Intertype Corp. and would appreciate up-to-date information on the company."

W. A., Trenton, N. J.

Harris-Intertype Corp. is the new name of Harris-Seybold Co., into which Intertype Corp. was merged on June 27th to form one of the world's largest and most diversified manufacturers of printing equipment and supplies.

Sales of Harris-Intertype Corp. for the fiscal year ended June 30, 1957 totaled \$59,078,826, net earnings \$4,733,045, and earnings per share \$4.02 per share and these were based on the 1,177,074 shares of common stock outstanding at the June 30, year-end, which included 431,885 issued for the acquisition of Intertype.

At the year-end, current assets of Harris-Intertype totaled \$45,297,053, compared to the current liabilities of \$10,031,240, a current ratio of 4.5 to 1. The ratio of current assets to total liabilities, including long-term debt, was 2.75 to 1.

Combined shipments and earnings were below expectations as a result of the 5-week strike at the Cleveland plant in the early part of the year, and less activity in new orders than anticipated during the latter part of the year. The over-all operating results,

however, reflect the second-best year, and substantial progress was made in the long-range growth program.

The merger with Intertype provided further diversification and a strong position in an important new line of products—typesetting equipment; a stronger position in foreign operations; and an increased proportion of business derived from the sale of consumable supply and repair items.

Current quarterly dividend is 50¢ per share.

Avco Manufacturing

"I have been a subscriber to your publication for a number of years and value its contents. I would appreciate receiving late data on Avco Manufacturing Corp."

C. E., Atlanta, Ga.

Avco Manufacturing Corp.'s operations are widely diversified but military business produces the largest volume (60% of estimated current year volume). The latter business includes electronics, research and development work, mainly on missiles, aircraft engines, aircraft components and contract machine work. Commercial business includes special farm equipment, appliances (in Canada) and kitchen equipment, aircraft engines and components and the company operates both radio and TV broadcasting stations.

Avco Manufacturing Corp.'s

consolidated earnings and special credit for the nine months period ended August 31, 1957, amounted to \$8,586,374, equal to 92¢ per common share.

Second and third quarter earnings this year were seriously affected by a four month strike at company's New Idea farm implement division. The strike, longest in Avco's history, affected both spring and fall selling seasons. It was settled August 11th, with the signing of a new contract with a 3-year no-strike clause.

Dividends on the common stock were resumed with 10¢ per share payable November 20, 1957 to stockholders of record October 29th. The previous dividend was 10¢ per share on May 20th, 1955.

In the comparable nine months of 1956 fiscal year, Avco had an operating loss of \$3,499,529, equal after preferred dividends to a loss of 41¢ per common share, exclusive of a \$16,000,000 reserve provided for discontinuance of a major part of the company's appliance operations.

No provision for federal or Canadian income taxes was required during the nine months period this year because of the loss carry-forward from the previous year; and, during the current period, settlement of litigation relating to prior year's income and excess profits taxes resulted in a special credit of \$2,363,193.

Avco reports continuing satisfactory results in its business, including aircraft engines, research and development on the nose cone of the intercontinental ballistic missile, and electronics and airplane manufacture, as well as broadcasting and telecasting operations.

The discontinuance of the unprofitable consumer appliance division on November 30th, 1956 and concentration on more profitable business indicates improvement in this company's operations but the stock is speculative.

Hoffa Throws Down the Gauntlet—Will Congress Pick It Up?

(Continued from page 137)

National Committee to Study the Antitrust Laws reported, in 1955, that there is need for Congressional action to curb union monopoly.

The U.S. Department of Commerce, concerned with the impact of these abuses on the business world and the general economy, asked Congress to amend Section 6 of the Clayton Act to describe what are the legitimate functions of labor unions. Proper definition and confinement within its bounds is not a labor-management issue fundamentally, the Commerce Department said then, but an essential step to protect the public and to preserve the basic purposes of labor organizations.

In the Wagner Act and supplementary legislation (as well as in the Taft-Hartley Law), the basic purpose is to insure free collective bargaining. Unions have copperriveted that right upon the American economy, but they have gone much farther and impose their enormous strength, financial and otherwise, to force acceptance of demands in the fields of politics, legislation, and on the economic front generally. Unions no longer confine their bargaining to negotiations between employer and employee—the personal contact level. They do not hesitate to utilize the instruments of nationwide strikes which can place the fingers of a few union bosses at the throat of an entire industry; "pattern bargaining" under which small concerns may be forced out of business by being required to agree to terms and conditions they cannot afford; struggles for power and jurisdiction which place both management and worker in the middle; promotion of socialistic concepts through union power; restraints on freedom and opportunity for both employers and employees; interference with the free flow of trade; misuse of union funds for political purposes. Collective exaction sometimes figures as much as collective bargaining, in the process.

National policy never has intended that unions be free of restraints against monopoly. When

(Please turn to page 174)

Why the soft drink industry is bubbling

How attractive to investors is the soft drink industry? How do soft drink profits compare with such stalwarts as tobaccos, chemicals, meat packers? How does the future look? To find answers to these and other questions, editors of THE EXCHANGE Magazine went right to the top executive of a leading company—William E. Robinson, President of Coca-Cola.

Sales trends, marketing shifts, competition—all are analyzed. Mr. Robinson also tells how television, do-it-yourself hobbies and new packaging ideas stimulate sales; how population changes in the next decade will boost consumption. He also appraises foreign markets.

"The Growing Soft Drink Industry" is a penetrating study that's typical of THE EXCHANGE Magazine. The October issue also covers:

Leisure time is money

The trend toward fewer workdays may be a bonanza to certain industries. In a timely article, "Leisure Time and Common Stocks," THE EXCHANGE Magazine presents a table of 25 listed companies that make the tools of leisure—from boats to bowling balls—and their stock market performances over the past 10 years.

The lion's share... to advertising?

How do advertising appropriations of big corporations compare with sales, profits, dividend

payments? THE EXCHANGE analyzes sales, promotion expenditures, profits and dividends of the 25 companies listed on the New York Stock Exchange that spend the most on advertising. In "Billions for Advertising" see for yourself how widely corporate managements can differ when it comes to allotting promotional funds.

Wise... or not?

An investor interested primarily in dividend income may be wary of companies with large amounts of bonds and preferred stock outstanding. Is this sound reasoning? Or not?

"What Price Debt" gives you a look at 25 prominent companies with substantial obligations ahead of the common stock.

Bringing together illuminating facts about investing, market trends and new developments—all in a single low-cost publication—is the function of THE EXCHANGE Magazine. Whether you're an investor or have ever considered investing, you'll find in every issue articles of interest and helpful information from corporate executives, financial editors and market observers.

THE EXCHANGE Magazine is distributed by subscription only; so why not plan to start getting your monthly issues now. Fill in the coupon below, include a dollar and your subscription for a year will begin with the current issue.

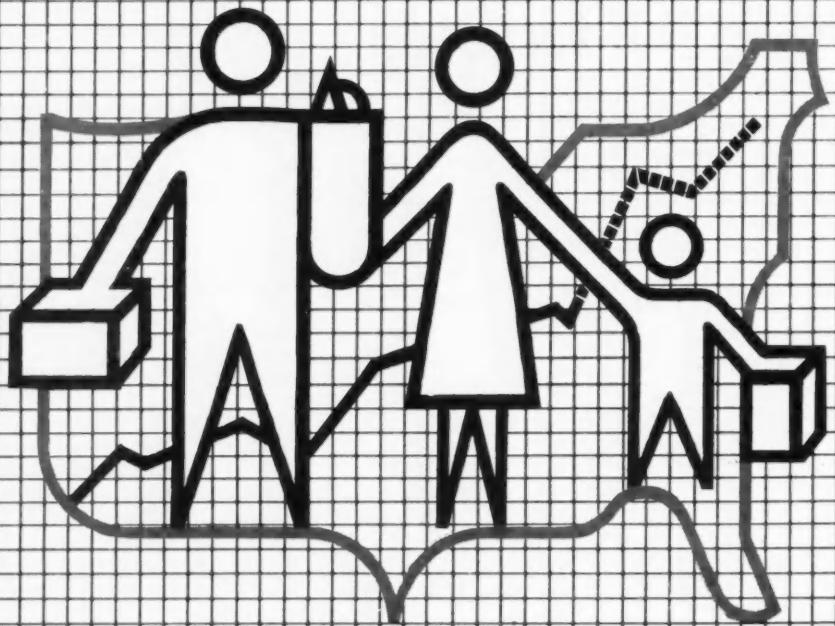


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**LIFE STUDY OF
CONSUMER
EXPENDITURES**

... a new background for marketing decisions

LIFE's Survey of People, Products and Purchases Gives New Light on U. S. Markets

BECAUSE U. S. productivity per man-hour is up **B** 44% since 1947 and has far outdistanced the 17% increase in population, top-level business executives recognize that the major economic problem is distribution.

As a result, management is putting greater emphasis on creating new markets and more efficient exploitation of markets that already exist.

To achieve this marketing efficiency, businessmen in all fields agree that more information—both quantitative and qualitative—is needed about America's consumer buying patterns.

A Study Tailored to Business Needs —Specifically to Marketing

LIFE has been uncovering precisely that kind of information in the largest expenditure-study ever undertaken by private business.

The scope and timeliness of this LIFE Study give it greater usefulness for more individual companies than any other study now available.

Cross-Section of the U. S.

The results of this LIFE Study, just released, are based on 93,000 completed interviews with consumers carefully selected to be representative of all U. S. households.

These consumers were asked about their purchases of scores of individual items . . . if they were bought, when they were bought, how many were bought, and how much was paid for them.

New Facts About America's Buying Patterns

LIFE's new Study shows how much United States households spend for food, clothing, shelter, household furnishings, medical and personal care, auto-

mobiles and recreation. These major categories are in turn subdivided into specific products.

For example, the Study not only shows the percentage of the dollar spent for food . . . but the percentage of the food dollar which is spent for specific products. It also describes the characteristics of the consumer who buys each product, giving a complete picture of the market.

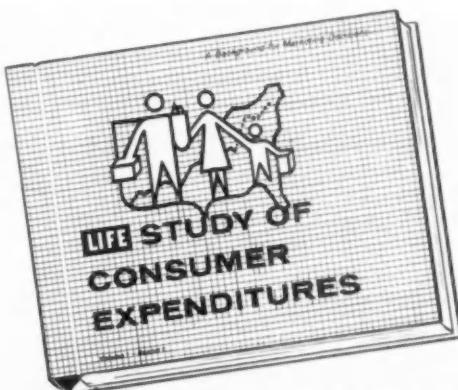
Household expenditures are described in terms of income, life cycle, geographic and marketing location . . . as well as by the education, age and occupation of the head of the household.

How Businessmen Can Use the Study

Thus, LIFE's Study reports to the businessman who spends how much on what. It helps him determine where his best prospects are . . . and what products are competing with his for consumer dollars.

Future volumes will relate consumer expenditures to retail place of purchase and to the timing of purchases not only by the month, but by week of the month and the day of the week. Volume I is priced at \$10 and is available by writing on your letterhead to:

**Market Research Department
LIFE, 9 Rockefeller Plaza, New York 20**



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Keeping Abreast of Corporate Developments

Continental Can Co. has announced the first general marketing of several types of aluminum cans. It plans to make them by extrusion process by early 1958, but now uses the same process for tinplate cans, which cost much less. The expected use of aluminum cans will be for products whose packaging costs represent a small part of the total price, and which require containers with strong visual appeal.

Dow Chemical Co. plans to build a plant at Bay City, Mich., to be completed by October, 1958 for the production of linear, or low pressure polyethylene which is more rigid, harder and more stable than the types now produced in Texas.

Du Pont de Nemours & Co., through its Grasselli Chemical Department, has opened a \$2,500,000 sulphuric acid plant with capacity of 10 railroad tank cars a day near North Bend in Greater Cincinnati, replacing the dismantled Lockland plant.

Elgin National Watch Co. states that company's fall sales of time pieces so far are disappointing and that is intensifying marketing efforts, trimming operations, and reaching into other fields. Elgin is also stepping up its electrical relay organization, which is improving, although it is being affected in a small way by stretch-outs in deliveries to aircraft industries which have been subject to defense contract cutbacks. While over half of company's business is still in watches, growth in other fields should be greater as company is considering new fields with outlets for precise miniature products.

General Electric Co. plans to construct a \$2,600,000 test facility for jet engine department at Elyria, Ohio plant for probable use in development work on X 211 engine, designed to use high-energy chemical fuels to extend speed and range potentials of the jet.

Gulf Oil Corp. has installed two new 20,000 barrel a day units at Philadelphia plant for refining home heating oils by a new hydrocarbonization process. Gulf expects the units to exceed design capacity as have the facilities at Port Arthur, Texas,

which used the same process.

Johns-Manville Corp. announced that plans to merge Bestwall Gypsum Co. into company have been dropped by mutual consent. It was stated that as a result of preliminary investigations, the conclusion was reached that a merger at this time was not feasible.

Lehn & Fink Products Corp. acquired National Laboratories, Inc. of Toledo, for about \$2,000,000. The latter company manufactures chemical products for maintenance and sanitation.

Monsanto Chemical Co. plans to add a 5,000 barrel a day catalytic reformer, hydrosulphurization unit and a 100,000 lb. an hour steam boiler to its Lion Oil Co. division, El Dorado refinery, by 1958.

Montgomery Ward & Co. opened 176 new catalog stores in the last two years and will have 467 such stores by the end of 1957. Tentative plans call for relocation of 40 stores in the next five years. Company plans to begin construction of two new warehouses to serve as distribution centers for catalog and retail stores before the end of 1957. Company plans to build a multi-million dollar warehouse and distribution center on a 14½-acre site near Detroit.

Phillips Petroleum Co. expects to complete a 13,500 barrel isopentane refining unit at its natural gas liquids processing and refining plant in Borger, Texas.

Pittsburgh Consolidation Coal Co. has contracted to supply 400,000 tons of limestone aggregate for the Cumberland Dam, built near Stratton, Ohio. It will be produced at company's new 650,000 ton a year aggregate plant located at Carrollton, Ohio, a limestone deposit which has reserves estimated at several million tons.

Radio Corp. of America has developed a new type of transistor that "approaches the ideal electronic switch" for high-speed switching functions in electronic computers and automatic control systems.

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Sound Advice in a Difficult Market

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Three Investment Programs to meet your various aims . . . with definite advices of what and when to buy and when to sell.

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In our Forecast Bulletin of August 6, 1957, to all subscribers, we sounded a clear warning under the heading of "Market Support Measurements":

"The Supply Measurement crossed the Demand Line last week and at Friday's close Supply exceeded demand by 9 points. This crossing gave a bearish reading."

This signal plainly depicted in our weekly bulletin chart came when the Dow Industrials were still at 505 — at this writing they are 69 points lower. This forecast barometer has been of inestimable value in gauging turning points in the market.

In that same bulletin under the heading "Dow Theory Interpretation" we stated:

"Both the rail and industrial averages broke through the lows set in the week ending July 19, signalling a secondary reaction."

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Hoffa Throws Down the Gauntlet—Will Congress Pick It Up?

(Continued from page 169)

the Sherman Act was passed in 1890, language exempting unions was deleted by Congress. When the Clayton Act was passed, in 1914, one of its early tests resulted in a Supreme Court decision that union activities in restraint of trade violate the antitrust law. The combination of the Wagner Act, the Norris La Guardia Act and a series of Federal Court decisions brought about the situation in which unions today can be reached by the antitrust laws only in the unlikely circumstance when the union engages in collusion with employers. That means the labor groups enjoy a judicial license to do what others may not do. In the case of *Allen-Bradley vs. Local 3, IBEW*, Justice Hugo L. Black, one of the foremost of the pro-labor careerists, said: "Our holding leaves labor unions free to engage in conduct which restrains trade."

International unions have taken most of the powers formerly held by their locals. It is in this control that the need for antitrust law application becomes manifest. A local union has an unchallenged right to strike against the employer, and an employer has the right to cut down production even though it reduces the number on the payroll; the international can unite its local in a strike against an entire industry and it is legal—but if the management unites with others in its field to cut costs, it is violative of the Federal law.

Group boycotts or concerted refusals by businessmen to deal with other businessmen violate the law, but union demands under which non-union employers are boycotted is legal.

Unions may restrict the use of improved methods, and thereby retard production and increase costs and this is legal. But if businessmen combine to suppress new technologies they are in violation of the law.

Unions can allocate territory and divide up the country and it's legal; if businessmen even confer on the same subject, they are in violation.

Illustrations run into the scores. The double standard is a

fact, the huge treasures of some unions, and the racketeering and dishonesty of labor czars is the end product.

Huge Funds Create Union Power

And, since existing statutes are inadequate to the proper accounting and management of union funds—especially welfare funds—union leaders are in position to further fatten their personal fortunes, to make shady deals with shady managements—all to the detriment of the membership they represent, with resultant harm to others not remotely connected with the union or with the particular industry involved.

Pointed up by the McClellan Committee are these disturbing facts:

Big unions have grown into economic giants. Their monetary powers equal those of many large corporations. The political strength of unionism today is often the balance of power in elections at every level—national down to the City ward. Labor's capital, accumulated through dues and welfare-pension funds, is a massive force to be reckoned with in the economic planning of the Nation. Labor plays an important role in decisions of management, and has even moved into the determination of foreign policy.

Organized labor is a force to be reckoned with!

Labor's support for this power is based on the fact that we believe in trade unions and the right of workers to organize and bargain collectively through their own chieftains. However, we do not believe labor's power should be misused or abused. Just as public indignation slapped down the Insulls and the Whitneys of two generations ago, public indignation is now at the point to demand curbs on the Becks and Hoffas of 1957. In other years the Congress, despite tremendous opposition to interference with free enterprise, passed the Securities and Exchange Act, the Utilities Holding Company Act, and more stringent banking laws. Business management of today approves those laws. They frustrated the crooks and the cheats—in the minority then, just as the bad labor leaders are in the minority today. It is doubtful, however, that today's business man would ask the repeal of any of those "restraints" upon free enterprise.

Labor's Inadequate Efforts At Housecleaning

Racketeering was far from unknown in the American Federation of Labor. Public protests brought top echelon reply that the shady unions were autonomous, consequently the parent federation could not take disciplinary action. Nor was racketeering unknown in The Congress of Industrial Organizations, which also experienced Communist infiltration. As the two groups—AFL and CIO—merged, there was concerted effort to get rid of the Reds and Red-dominated unions, while anti-racketeering steps were initiated by the officers of the merged setup. Through its ethical practices committee, the combined AFL-CIO tackled the Herculean task of cleaning out its Augean stables of corruption.

George Meany, president of the great combine, has publicly conceded the job is too big for organized labor itself. He has pointed up that the ethical practices committee, lacking the subpoena power that is the Senate's, will have a tough time trying to "clean house." He has said, in effect, that the help of Congress will be needed. He did not, however, say the remedy would stem from new legislation—merely implied that the exposures of the McClellan Committee, coupled with organized labor's own efforts, would do the job, thus making new Federal laws unnecessary. But Congress, the public, and even a sizable segment of organized labor disagree. A new Federal code of labor regulatory legislation seems needed. The code is now in the embryo—only time will reveal its final stature and appearance.

Most of today's corporations deal with unions in good faith. There is, nevertheless, a stiffening of attitudes—corporate and private—toward labor unions. This hardening indicates a change in climate insofar as the unions are concerned. They face chilling legislation which will drive away the warmth and sunshine that was the laboring man's, simply because he supposedly was society's economic underdog. The Becks and the Hoffas are definitely in the minority, true, but their sins as exposed by the McClellan Committee have warned the public and the entire labor movement. At the same time, the public has been awakened to the inherent dangers

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of a unionism too strongly supported by laws which were written, more with an eye on the ballot box than upon the economic safety and welfare of those supposed to derive the greatest benefits from unionization. For example the Norris-La Guardia Act, freeing unions from the disciplinary rod of anti-trust statutes.

The McClellan Committee hearings threw light on a seamy side of unionism, a side which many never realized existed. But labor racketeering didn't start just a day or two before the Arkansas Senator opened his probe. Bribery, extortion and embezzlement were "old hat." Newspaper files for years recorded the trials and convictions of such union shakedown artists as Willie Boff, Dutch Schultz, Joey Fay, George Scalise — to name a handful. Despite the records and convictions of these characters, legislative bodies held to a policy of hands-off organized labor, other than to pass laws which gave labor barons more economic and political power.

Strong Labor Legislation Needed

A portent of what is to come in the way of Federal labor legislation is probably pointed up with some accuracy by Senator William F. Knowland, Republican, who is an avowed candidate for his Party's nomination for the governor's chair in California. This early, Knowland has said he would endeavor to outlaw compulsory unionism if elected. It is also known that he has strong views that organized labor, like big business, can be a dangerous monopoly. This sentiment is today prevalent upon Capitol Hill where Knowland has influence, even though he is of the minority Party.

But outlawing compulsory unionism and bringing unions within the purview of the antitrust laws are not the only thoughts in national legislative minds. They think strongly of open records of union dues as well as a statute that would regulate union welfare and pension plans as rigidly as the states now regulate insurance companies.

There are some labor "leaders" who will decry such measures as "drastic, labor-busting and unfair." Segments of big business half a century ago bitterly op-

posed the anti-trust statutes and subsequent regulatory statutes — such as the Securities and Exchange Act and the Utility Holding Company Act. Today, however, the representatives of big business who would repeal these laws can be counted on the fingers of one hand. Agreement is well-nigh universal that they have benefitted all business through their curbs on unscrupulous operators.

As time proved the business regulatory statutes of benefit to business, so will a better union regulatory code benefit labor. The honestly run unions can have nothing to lose if such laws clean the labor movement of the racketeer and bring about the elimination of the false leaders whose concern for the working man is but a shoddy front to fatten personal purses.

—END

Our Best Customer is Making — Political-Economic Changes That Affect Us

(Continued from page 143)

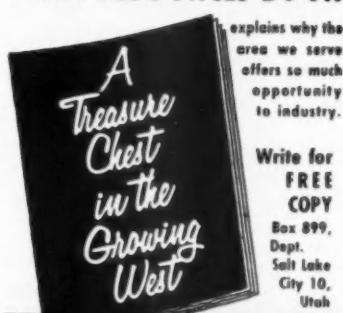
in Canada and are definitely not anti-American.

Indeed, the effects on U. S. interests from these developments may not be as extensive as appear on the surface and in some ways may even prove insignificant.

Britain's Free Trade Offer Brings Sharp Opposition

Thus, officially, Canadian Government is to review government buying to switch more trade to the U.K. but effects of this are questionable because Canada buys in U. S. mainly for defense needs. Last year, U. S. spent about \$3 million more for such purposes in Canada than the latter, \$43 million against \$40 million. Officially, consideration is to be given to revising tariff on exemption of tourist buying by Canadians visiting overseas, but even last year, a peak travel year, duty-free allowances totalled only \$1.5 million and only a very big change can bring any benefits. Officially, a high level trade delegation from Canada will visit U.K. but there is no assurance that this can bring in concrete results. Officially, a free trade proposal was made by U.K. but there has been such a surprisingly quick and wide-

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Common
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DIVIDEND

The Board of Directors has authorized the payment of a dividend of fifty cents (\$50) per share payable December 18, 1957, to holders of Common Stock of record November 29, 1957, who on that date held regularly issued Common Stock (\$1.00 par) of this Company.

Directors also declared an extra dividend payable November 27, 1957, in shares of Common Stock amounting to 5% of the stock registered in the name of each stockholder of record on November 6, 1957.

WALTER E. FOX, Secretary
One Broadway, New York 4, N. Y.

COLUMBIAN CARBON COMPANY

One-Hundred and Forty-Fourth
Consecutive Quarterly Dividend

A regular quarterly dividend of 60 cents per share on the Capital Stock of the Company will be paid December 10, 1957 to stockholders of record at the close of business November 15, 1957.

RODNEY A. COVER
Vice-President — Finance

COLUMBIA PICTURES CORPORATION

The Board of Directors at a meeting held today declared a quarterly dividend of \$1.06 1/4 per share on the \$4.25 Cumulative Preferred Stock of the company, payable November 15, 1957, to stockholders of record November 1, 1957.

LEO JAFFE
Vice President & Treasurer
New York, October 9, 1957

spread opposition to it by many Canadian businessmen, that top level politicians in Ottawa are refusing even to discuss it with the press. Officials will not admit it but observers say this proposal died before it was born. The basic reason behind the outcry is, of course, that the "new deal" came into existence principally because it had offered more protection for domestic industries. With wages and standards of living lower overseas, Canadians feel that they could not compete with such imports. The proposal has been termed "ridiculous" by Canadian industrial leaders who also point out that this is contradictory with the present flood of demands before the Tariff Board in Ottawa, some suggested by the "new deal" government itself, for protection for Canadian industries, such as chemicals, textiles, mining, food processing, rubber footwear, radios and TV steel, etc. More demands for protection are known also to be on the way.

There is now a growing opinion that Canada may have to adapt herself to the growth of the U. S. economy whether this is good or bad politically. At least, some influential circles hold this view. In fact, a well-known Canadian banker, in close touch with the whole situation, said that "for the much expanded Canadian economy, the Commonwealth simply is not big enough or sufficiently oriented in our direction to restore anything like the proportions of trade we enjoyed with it in the 30's." What he said is what a great many Canadian leaders are thinking.

British Investment to be Spurred by "New Deal"

Nevertheless, the "new deal" in Ottawa is going ahead, at a slower rate than generally expected earlier, to establish a more favorable atmosphere for British investments to expand at a faster rate in Canada, though in recent years such investment has been quickened. At the end of the past year, British investments in Canada reached \$2,675,000,000 in sharp contrast to about \$1,610,000,000 only eight years ago. U. S. investments climbed to some \$11,651,000,000 at the end of the past year compared with only \$4,990,000,000 in 1945, and are now well over the \$12,000,000,000 mark.

But activities backstage in Ottawa and London are now expected to step up the whole British capital movement to Canada for direct investment purposes, expanding existing interests and creating new ones. Right now the British investments include some real "big fellows" in Canada, such as leaders in aviation, pulp and paper, mining, steel, tobacco, glass, chemicals, drugs, insurance and others, with even a casual listing of British-controlled interests being impressive, though naturally behind the scale of U. S.-controlled companies.

British investments now include controlling interest in A. V. Roe Canada Ltd., Canadian Car Co., Ltd., Rio Tinto Mining Co., Dominion Steel & Coal Co., Ltd., Algoma Steel, Darcy Petroleum Co., Canadian-British Aluminum Co., Ltd., Bowater Pulp & Paper Co., Anglo-Newfoundland Pulp & Paper Co., Anglo-Canadian Pulp & Paper, Imperial Tobacco Co. of Canada Ltd., Canadian Industries Ltd., Electrical Reduction Co., British Drug House, Allan & Hambury Ltd., Kendall, Bishop Co., Lever Bros., W. J. Bush & Co., Ltd., May-Baker Canada Ltd., British Petroleum Ltd., Laporte Chemical Canada Ltd., Pilkington Glass, Hudson's Bay Co., and a great many others too numerous to mention here, including many companies in insurance, electrical, construction, etc. Under the atmosphere being created by the "new deal" in Ottawa, this Canadian list of British investments can be expected to increase at a more rapid rate.

—END

Stocks Likely to Pay Year-End Cash or Stock Dividends

(Continued from page 147)

\$7.00 per share against \$5.93 last year, and cash flow, as a result of rapid amortization of some of its facilities should be exceptionally high. Under the circumstances, a dividend payment commensurate with last year's 30% of earnings payout seems in order. A hike in the quarterly rate is possible, but a 25¢ extra is the more likely eventuality.

Elsewhere in the petroleum industry, most of last year's extras should remain intact. **Texas Gulf**

Producing and **Sun Oil** should at least match last year's 4% and 6% stock payments respectively; **Standard of Indiana** will undoubtedly continue its yearly distribution of Standard Oil of New Jersey stock; and **Texas Company, Socony-Mobil** and **Richfield Oil** are likely to again come through with cash extras. **Gulf Oil**, incidentally has already declared its traditional year-end stock payment.

Some Conspicuous Absentees

Probably the biggest dent in this year's extra total will be caused by the absence of the usually heavy non-ferrous metals company year-end disbursements. Most of the copper producers, including the dominant Kennecott, Anaconda and Phelps Dodge will most likely be missing from this year's lists, as will the lead and zinc producers and most of the large smelters. A few extras may be scattered here and there but the total won't come close to last year's high level.

Even **International Nickel** may find it advisable to forego the \$1.15 extra paid in 1956. Current earnings, which should end up just a shade under last year's, warrant an extra, but with the outlook for nickel suddenly turned topsy-turvy by a radical change in U. S. Government procurement policies, conserving cash to finance new nickel products may take precedence over Christmas cheer for stockholders.

And in passing, we might mention that the sulphur industry, beset with price-war troubles between Mexican and domestic producers will have no year-end candidates this year.

Stable Extras for Consumer Good Companies

Outside of the aforementioned drug group, the brightest record in 1957 will be made in the more prosperous consumer goods industries. **Reynolds Tobacco** has just raised its quarterly payment to 90¢ from the previous 80¢ rate; **Liggett & Myers** will probably duplicate last year's \$1.90 extra and **Philip Morris** and **Lorillard (P.)** seem in line for increases or extras this year while **American Tobacco** usually saves its extra for the March quarter. The tobaccos however,

have been covered extensively in recent issues of this magazine, so no additional comment is necessary here.

In other consumer fields, **J. C. Penney**, among the department store chains seems the most secure in the extra parade. Penney operates 1,690 stores and is represented in every state of the union. Store units specialize almost exclusively in low-priced consumer non-durables and stress high volume as opposed to high mark ups on goods.

Sales slipped slightly in the first half of 1957 but profit margins were wider, reflecting new and more efficient inventory and merchandising controls. As a result, earnings for the period rose to \$2.23 per share against \$2.08. Second half results will benefit from the increases in consumer spending noted by the Commerce Department and other sources during this past summer, lending virtual certainty to a repeat of the \$1.25 extra Penney has paid in each of the last two years.

Montgomery Ward, one of the major mail order houses and a leading store chain will also probably continue last year's 25¢ extra, but current developments raise some doubts. Earnings so far in 1957 have not kept pace with a year ago, and sales have eased a trifle under the 1956 first half figures. Furthermore, full year earnings, from present indications may slip below \$2.50 per share compared with \$2.65 per share for all of 1956. But it is not the small earnings decline that casts doubt on the extra payment. Rather, it is the \$84 million, five year expansion plan the company started in mid-1957. Montgomery Ward's cash position is exceptionally strong, and in fact stands at more than twice all outstanding liabilities, but the company's long time cash conservatism could threaten the extra at a time when coverage is the narrowest in many years.

Investment Summary

Predicting any company's dividend policy is a study in probabilities, at best. In previous dividend discussions in our Investment Clinic section attention was called to the various intangibles that play as important a role as earnings in the formulation of policy.

Today, these intangibles are of particular significance. In recent weeks the sluggish stock market has given way to what may be a full-scale retreat of stock prices. Such an atmosphere is certainly not conducive to corporate optimism—and optimism is the heart of most dividend policies. The next few weeks will obviously be a crucial time in the market, making it all the more important to scrutinize dividend policies closely. For here can be found the best possible guide to big business thinking about the outlook for 1958—and beyond. —END

3 Thumbnails

(Continued from page 148)

They will probably not prove to be entirely satisfactory to those who accentuate income in terms of the highest possible yield, on the one hand. Similarly, they may not meet the over-enthusiastic theories of "growth" or quick profits, which appear to have been characteristic of the more speculative segment of the market earlier this year. Likewise, they will not represent a perfect "hedge" against inflation. On the other hand, the three issues will provide well-protected income, with yields ranging roughly from 4% to 5%. They will offer the patient investor a better-than-average prospect for longer term growth. In addition, they will represent some degree of ownership in natural gas and oil reserves, against the day when inflationary influences may reappear or when recession or deflationary factors may assume a less important role than at present.

—END

Fresh Survey of the Super Markets

(Continued from page 155)

cent of its sales. Company is in the process of consolidating its routes and closing smaller, less efficient stores while increasing the number of more economic outlets. Forty-one new units were acquired in March of this year through acquisition of the Eisner

Grocery Company. In addition, seven large supermarkets were opened with ten more scheduled for the second half of the year. Eight smaller stores were closed. Management is aggressive. Company processes a sizable percentage of the groceries sold in both its route business and stores. Future territorial expansion plus continual modernization and store additions make long term outlook promising. Stock sells at 11.2 times earnings and yields 3.7% on its \$2 payout.

Kroger is the nation's third largest grocery chain operating around 1500 units in the Midwest and South. Although sales increase of 91% from \$861 million in 1950 to \$1650 million in 1957 has been rather swift, company presents perhaps the best growth possibility of all the chains on the basis of a recent surge of modernization. 149 new stores were opened last year with major renovations of 50 more while 267 older stores were closed. 150 new units have been scheduled for 1957 with capital outlays of around \$50 million. Lateness in getting their expansion underway penalizes Kroger through higher building costs and loss of many good locations to competitors, but this drawback may be more than compensated by a larger percentage of recently built units taking advantage of the more efficient, recent designs. Kroger's profits margins have been widening at a rate greater than the balance of the industry. Company also operates bakeries, dairies, coffee plants, even one for instant coffee. The products sold under its own label account for about 9% of sales. Selling 11.8 times earnings, Kroger is not cheap, statistically. However, because of a later modernization start, growth possibilities are dynamic. Dividend will probably be limited to the present \$2.00 payout for a while due to capital requirements. Further liberalization is possible in 1959. Present yield is 3.4%.

National Tea has been expanding its operation through addition of new units and acquisitions until it is now the fifth largest food chain in the country. Sales have more than doubled since 1950. The territorial concentration of its approximately 870 stores is in the Mid-West, particularly Illinois where about 30% of its

units are located. In 1957, 112 new units were added by acquisition alone, 27 through purchase of Miller's Supermarkets of Denver and 85 stores through acquisition of Tolerton and Warfield, a chain headquartered in Sioux City, Iowa. Acquisitions were financed in part through sale of debentures. Because of the proportionately high percentage of supermarkets (over 60%), sales per unit and consequently profit margins have been satisfactory. Company operates three meat plants. Its Chicago unit processes coffee, peanut butter, salad oil, jam & jellies, extracts and soft drinks. Company yields 4.7% on its regular \$0.50 quarterly dividend. Although a \$0.40 extra was paid in 1956, it is unlikely to be repeated this year out of company's desire to retain cash for further expansion. Its aggressive management suggest a continuation of its growth. At its recent price of 42 1/2, stock sells at 11.2 times earnings.

Safeway Stores is second in size in the food chain field with 2,000 outlets in U.S. and Canada. The main area of activity is the West Coast where 37% of its units are located. Company's growth over the last decade has not been outstanding, but new management after a period of reorganization has spearheaded a rash of new openings. Around 183 new stores have been added this fiscal year versus 94 for 1956. Earnings jumped from \$3.24 in 1955 to \$6.11 in 1956 with likelihood of their reaching around \$7.50 for 1957. Despite the doubling of earnings in 1956, dividends remain at \$2.40. On November 4 stockholders will vote on a three for one split to be accompanied by 25% increase in the quarterly dividend rate. Payout will undoubtedly remain small in the interest of preserving cash for expansion. As with the other large chains, company has warehouses and various food processing facilities. With improving profit margins due to modernization and good prospects because of aggressive, capable management, stock at 9.5 times anticipated 1957 earnings should be in a buying range. Yield assuming stockholder approval of the split and dividend increase will be 3.8% at its recent price of 71.

Winn-Dixie Stores (formerly Winn & Lovett) is a southern

chain with its heaviest concentration in the Carolina's and Florida. Company has a total of around 475 units and is the eighth largest of the chains. Stores are operated under various names in addition to its own. The Ketner-Milner Stores, the H. G. Hill Stores, the Dixie Home, the Kwick Chek, the Steiden Stores are all part of this same chain. Most of the company stores carry supplementary lines of non-food items including drugs, cosmetics, and various household wares. Company has bakeries, plants for processing coffee, tea, spices and the manufacture of ice cream, cookies, salad dressing, peanut butter, etc. Growth has been enormous over the last seven years. Sales have risen from \$113 million in 1950 to \$513 million for the fiscal year ending June 30, 1957. For the twelve months ending June 1958, 45 new supermarkets are expected to become operative. In the '56-'57 year, sales expanded 21.9%. The first eight weeks of the '57-'58 period saw sales increase of 17.6% over the comparable period the year previous suggesting continuation of the vigorous expansion. Earnings for the present year are expected to better last year's \$1.68. Even so, stock sells at a somewhat inflated 15.3 price-earnings multiple indicating that some of the dynamic growth potential is already reflected in the price. Yield is 3.7% on the \$0.96 dividend paid at the rate of \$.08 monthly. —END

Corn Products Refining — Old Line Company In New Growth Phase

(Continued from page 152)

long term debt of \$2,358,000 and a minority interest of \$125,218.

The year-end 1956 financial position was strong with \$83,000,000 of current assets, including cash and equivalents of \$19,000,000 to offset current liabilities of \$31,000,000. Inventories included finished and in-process goods of \$24,000,000 and raw materials of \$7,000,000. Property, plant and equipment at the close of last year were carried at \$180,000,000, against which depreciation of \$75,000,000 had been accrued. Construction work in progress totalled \$5,400,000. Net fixed assets of \$110,000,000 at that date

compared with \$47,000,000 ten years earlier. Capital expenditures last year aggregated \$15,000,000, and it is expected that a similar amount will be spent in 1957.

Corn Products' present capacity is adequate to handle a 25% increase in volume with very little capital expenditure. The company has found in the construction of additional processes and facilities that economy favors building them oversized, and then, as the President said, growing into the new capacity. Finding itself in this happy position, the company can divert more capital funds toward modernization and development programs, which will increase earnings potential. Management has recently said that it foresees no immediate need for borrowing or financing in order to continue the company's extensive capital expenditure program. Corn Products has in past years financed these expenditures with about 60% from current depreciation and the balance from earnings. Current depreciation is running at over \$7,000,000 annually, and is increasing, so that adequate funds are available.

Investment Appraisal

Corn Products has displayed abundant strength in both good and bad times. The company reported a profit and paid dividends throughout the depression years, as well as during World War II, when selling prices were controlled by the Office of Price Administration, although corn prices were free to advance. Profits in 1947 were the best since 1929, although after the war earnings declined when corn became high-priced. High taxes also helped to hold down earnings in the post-war years. For the year 1955, a significant profit increase was achieved, with earnings of \$2.29 a share, compared with \$1.80 a year earlier, largely attributable to an important rise in the return from foreign operations. Last year's earnings rose to \$2.36 a share, the second highest on record, while on a world-wide basis, 1956 earnings were equal to \$2.47 a share compared with \$2.38 a year earlier. It is important to note that profit margins have remained good, with net income before taxes for the past five years averaging 13.6% of sales, and net after taxes averaging 7.6% of net sales.

For the first half of 1957, Corn Products and its domestic and Canadian subsidiaries achieved consolidated net profits of \$1.02 a share on net sales of \$162,000,000. This represents a rise of 29% over the 78 cents a share reported for the first six months last year on sales of \$147.8 million. Unremitted earnings of foreign subsidiaries amounted to 20 cents per share this year, compared with 27 cents in the corresponding period a year earlier. Total sales of \$480,000,000 are in sight for full 1957, while sales volume of \$350,000,000 seems a reasonable expectation for United States and Canadian operations, both of which would be sharply higher than last year's volume.

There is every reason to look ahead to a bright future for the Corn Products Refining Company. The Company's world-wide sales are founded on an unusually wide distribution base, which is being further broadened. The continuing modernization of facilities and the dynamic acquisition program, guided by capable management, are expected to keep Corn Products in the forefront of industry.

END

A New Challenge and Opportunity for American Industry

(Continued from page 131)

tendency of some countries to favor natural uranium reactors of the Calder Hall variety because they lack the capability of enriching uranium themselves.

While all of these factors will undoubtedly exert a strong force in shaping the decision in favor of one reactor type over another, it may well be that they will be overshadowed by considerations of another character. For example, the availability of loans from the World Bank at low interest rates could well sway countries with normally high interest rates toward adopting reactors which require high initial investment, such as the American PWR unit. However, it should also be noted that British companies are pinning part of their export hopes on the World Bank, which has indicated a willingness to finance atom plants abroad. On the other hand, Britain's nuclear plant salesmen can make a convincing case for their product by

pointing to an operating commercial power reactor, whereas at the moment their American counterparts can show only engineering studies or projects constructed on a costly military or experimental basis.

These and other factors suggest that there are so many valid arguments for both the U.S. and British reactors that prospective buyers, in the final analysis, will probably vote in favor of both. Japan is a case in point. Nipponese Government officials are now believed to favor the importation of several Calder Hall units as well as an equal number of American reactors during the next decade. Several Japanese representatives at the Japanese Atomic Industrial Forums held at Osaka, Nagoya and Tokyo in May privately expressed a preference for the Calder Hall type because it is already operating, it is basically simple in design and, because it uses natural uranium instead of enriched types, would make Japan independent of the United States for supplies of the latter. Perhaps the most telling argument in favor of Japan's use of American reactors is their smaller size which makes them more suitable for use in nuclear-propelled ships. This is a particularly impressive point inasmuch as Japan will place considerable emphasis on the development of nuclear-powered vessels in order to maintain her position as the world's leading shipbuilder. Another factor heavily in favor of American manufacturers is the fact that they seem to be more willing than the British to conclude licensing agreements with Nipponese companies. It is likely, in fact, that agreements of this nature may prove America's most potent sales weapon abroad.

It is also equally probable that U.S. Atomic markets in industrialized nations abroad, such as Japan and Germany, will last only until these countries are capable of producing their own. Germany in particular will soon be a formidable competitor. For this reason it is important that American manufacturers make the most of their opportunities now. There are, however, several influences at work which may jeopardize the American position abroad.

The first of these is the action taken by the Joint Congressional

Committee on Atomic energy last July. This action has been decried as militating against the United States in the world race for leadership in civilian atomic power. The effect of the Committee's decision was to convey the impression that Congress believes the British natural uranium system to be superior to the American and that consequently there is no merit in Washington's policy of liberally dispensing Uranium-235 overseas. One of the most forceful arguments in favor of U.S. reactors has been precisely the fact that the enriched fuel which they require has been and will be readily available to all would-be users abroad. By its action Congress has nullified the value of the impressive competence which we have achieved in enriched-reactor technology.

United States manufacturers of nuclear energy equipment are further handicapped in developing export markets by the fact that the American foreign patent position in atomic energy is extremely weak. For example, a recent patent search in eleven Western European countries, including France, Germany and Italy, failed to uncover a single nuclear energy patent issued to the U.S. Government. The situation in Japan is equally inadequate. Thus, as it now stands, neither this country's Government nor American industry has a foreign patent position in the nuclear energy field of any consequence. At the same time, foreign governments have secured basic reactor patents and have been active in their exploitation. This, of course, subjects American firms to the danger of being excluded from foreign markets or to the necessity of paying burdensome royalties. There is the further possibility that foreign recipients of American technical information under bilateral agreements for the interchange of technical data may independently patent the work of a U.S. firm inasmuch as European law permits the issuance of patents to others than the first inventor. American industry therefore considers that a foreign patent position in atomic energy be established quickly in order that this country's share of international nuclear energy markets be commensurate with her contributions to the development of peaceful atomic energy. —END

Is Market Now Ripe for a



Is a rampant 250-Point Upsurge?

"Yes," says scholarly Dow Theorist E. George Schaefer—"after two years of consolidation and seven intermediate declines, the market at long last appears to have regained the stamina it needs for a sustained, relentless run-up of the kind which has marked the climax of every major bull market in history." Schaefer, whose reputation for picking profitable buying areas was kicked off auspiciously by his incredible timing at the beginning of the boom in 1949, adds that "the Industrial Average should top off at the 725 to 775 level—probably within the next 20 to 24 months, according to my technical research studies."

One of the nation's top ranking Dow Theorists, and a man known for calmness in periods of stock market stress, Schaefer candidly admits that this prediction, which employs his modern Wide Dimensional Measurement, "may well be the most important projection of my entire career—even more so than the 1952 forecast" (Schaefer, who is referring to his prediction five years ago that the Dow-Jones Industrial Average could rise from 270 to 522, saw it climb to 521.05 last year).

In a memorable departure from Wall Street's traditional "kid glove" style of interview, Schaefer, in the following pages, subjects himself and his complete forecasting record to an unusually searching and uncompromising examination.

Interview continued

EXCLUSIVE INTERVIEW

Interviewer's Introduction

To many investors E. George Schaefer is known as the man who, in 1949, predicted history's greatest stock market boom. Some others have called him a confirmed optimist who always seems to think the market will go up. In this important and exclusive interview, deliberately timed to a period when many investors are uncertain about the stock market, we are going to get the real story from Schaefer . . . the unvarnished facts about what he thinks today. We are going to find out why he relies on the modern version of the Dow Theory for his predictions, why he calls most other forecasting methods "antiquated," why, when other forecasters were bearish and preached caution, he urged investors to buy *more* stocks at low points in 1949 and 1953, and why he says today that the Dow-Jones Industrial Average will soar "200 to 250 points" within the next 20 to 24 months.



SCHAEFER: "Explosive Upsurge in Stocks . . ."

Q. Mr. Schaefer, in a feature story in the financial pages of the Indianapolis News of May 24, 1956, you were quoted as saying: "Stock market analysis is an imperfect science." Is that correct?

A. Yes, that's true.

Q. Yet you make your living as a stock market analyst?

A. Correct.

Q. Then, if stock market analysis is an imperfect science, tell me why an investor should follow the advice of advisors such as yourself. Why doesn't he take tips from a racing form . . . pick a horse at the \$2 window and let it go at that?

A. Your analogy may not be so far from the truth as you think—if you're comparing "two-dollar window watchers" with short-term in-and-out traders and those who think they can make money from tips. But the difference between short-term traders and long-term investors . . . individuals who are seriously looking for large stock market gains . . . the difference is about the same as when we compare day-to-day fluctuations with the market's long-term primary trend. Stock market analysis is most *imperfect* when it attempts to predict short-term movements . . . most *accurate* when it emphasizes the long pull up, or down, as the case may be.

Q. You believe then, that for stock market analysis to be profitable, short-term fluctuations should be disregarded?

A. Yes . . . that's right. Analysis becomes more accurate when it follows the primary long-term trend. Most experienced investors have already learned that it's easier to swim with the tide than against it. In a bull market such as we have been experiencing since 1949, short and intermediate-term sell-offs should be used only for buying *selected stocks in harmony with the primary trend upward* . . . not for selling against it.

Q. Is that all there is to it? Just buy stocks in harmony with the primary trend upward in the market?

A. No, of course not. They should be *selected stocks . . . stocks in diversified industries . . . stocks which have good growth, earnings and dividend potential*. These are the kinds of stocks you should buy and hold on to as

long as a primary trend upward is underway in a bull market. You should own stocks in which you can remain fully invested without losing sleep and without trading and switching away all your profits on the way up. The opposite will hold true of course when we enter another bear market . . . but my studies indicate that any *major* decline is still another 20 to 24 months away.

Q. Don't you ever suggest selling during a primary upward trend for a "quick profit" on minor reactions?

A. Never. I let inexperienced, "get-rich-quick" investors try to make money on the minor swings. Seasoned investors have learned that patience and "investing for the long pull" is more important than guesswork, and that these habits provide the only sensible approach to pyramiding profits for the truly worthwhile long-term capital gains to be had in the stock market. I do believe however, and have always advised my subscribers, that reactions *can* be used profitably to buy *more* stocks in a primary upmove. The layman makes his biggest blunder when he follows day-to-day fluctuations and news, because both tend to create fear, a loss of confidence, and cause premature selling.

Q. I think most investors are familiar with your prediction of a new Bull Market at the bottom in June 1949, and with your forecast in 1952 that the next major peak in the Industrial Average would be at 522. More recently you were quoted in the San Francisco News of August 13, 1957 as saying that the next major objective of the Industrial Average will be "up to the 725 to 775 area." Couldn't you be putting yourself out on a limb this time—in a period when many advisory services are undecided about what to suggest next?

A. That's a fair question, but as you suggest, I am "out on a limb" only insofar as the majority of *other* advisory services are concerned. This situation has happened to me too many times before to be anything but philosophical about it. I would have been out on a more uncomfortable limb, if like a majority of the services I had been misled by bearish psychology and followed the "crowd" instead of remaining bullish in 1949 and 1953. Don't you agree?

Q. Yes, I suppose that's true. Now another question about your forecasts. You have credited the success and accuracy of your predictions to your interpretation of the Dow-Jones Averages. Right?

A. No . . . but that's a common misconception, and one which many writers have made. Just like fossilized impressions which have been preserved from the past, the Dow-Jones Averages represent an historical record . . . a record and nothing more. They only tell you what's *already* happened. I would say they reflect perhaps about 10% of my total research and technical studies. If you mean to ask whether these forecasts were based on the Dow Theory . . . the *entire* Theory which includes an interpretation of the Dow-Jones Averages . . . you are correct.

Q. All right, the Dow Theory then. What I'd like you to tell me now, Mr. Schaefer, is why you urged investors to buy stocks in 1949 and 1953 . . . periods when other forecasters believed a signal for a decline, or a Bear Market, had been given under the Dow Theory. What made you be-

"...two years of market consolidation within a narrow 13% range reflects strength...not weakness!"

lieve your forecasting technique was better than the techniques of other Dow Theorists?

A. Not all students of the Dow Theory, of course, were deceived by the stock market's misleading action in 1949 and 1953. A number of analysts who had widened the scope of their research were not fooled by the so-called bear market signals. There are others, unfortunately . . . intelligent people who should know better . . . who are reluctant to accept change. They prefer to remain in their safe little ruts. If you deny their narrow theories you will get the same response as Galileo when he said the earth moved through the sky. They will call it "nonsense." My reasons for advising investors to buy a diversified list of growth stocks in 1949 and again in 1953, for the long pull were based on important scientific and technical advancements which had recently been made in the Dow Theory.

Q. How recently?

A. Within the last eight to ten years.

Q. May I interrupt again to ask whether any of these advancements were the result of your own studies?

A. I had developed some of these modern methods during two decades of concentrated research, and I wrote to my subscribers at the time that this research indicated the market was ripe for a major bullish move in 1949 and that the 1953 decline was simply an intermediate-term correction after which the major bullish trend would continue. Only a very naive individual would have interpreted this new and improved Dow Theory any other way. I advised clients to buy more selected stocks in 1953 . . . to take advantage of the primary bull trend which had started in 1949 and which I expected to resume upward again. What we must recognize, is that today we have an opportunity to come

much closer to the target in preparing forecasts because we have a much larger range and volume of economic information than ever before. I simply believed, as Dow himself did, that a successful stock market forecaster should use all the tools and information at his disposal. Naturally no single individual can correlate the vast amount of information necessary to objectively prepare a regular letter to investors. To turn out a stream of fresh and independent advice and to publish the 6-page market letter which I send to a good many thousands of subscribers each week, I employ a staff of 29 people.

Q. Was the Dow Theory originally developed by a "school" of economists or is it the idea of a single individual?

A. Both. The original idea . . . the idea that was destined to bring such profound repercussions in the inflexible, out-dated investment thinking that had once been common in this country, was conceived by an individual . . . Charles H. Dow. As founder and publisher of the Wall Street Journal, Dow believed that the secret of accelerating investment profits was to be found in studying the trends of the stock market. To guide him he set up an "average," or index, of representative stocks. In the six decades since his brilliant observations and conclusions were formulated, a number of far-sighted economists have had a part in expanding and further developing Dow's studies. The original Theory remains intact, but it has simply been molded, when necessary, to meet the changes that have accompanied this country's dynamic industrial growth.

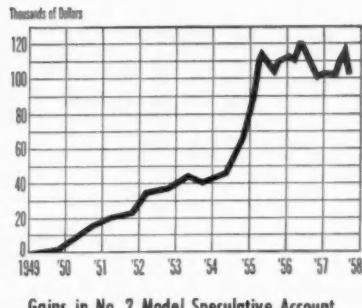
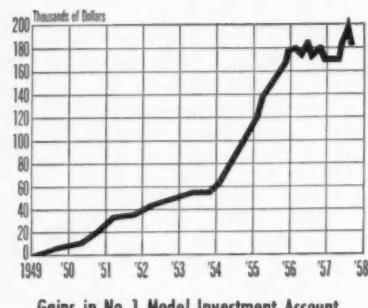
Q. What, briefly, is the fundamental principle of the Dow Theory?

A. Perhaps the most important principle is Dow's discovery that the market is composed of three entirely separate and clearly distinguishable trends . . . each

PROOF OF THE PUDDING



Schaefer takes his own medicine too!



acting and interacting upon the others at all times. Dow illustrated these trends of the stock market by comparing them with the ocean. The ocean *tide* represents the long term primary trends; the *waves* are similar to secondary reactions; and the *ripples* to the minor day-to-day fluctuations. Just as it takes the tide a long time to come in from its beginnings far out from shore, so it takes the primary trend of the stock market a long time to run its full course. Since 1921, primary bull trends have run from approximately 4 to 8 years, and primary bear trends have progressed for about 3 to 5 years.

Q. You said earlier in this interview that you expect another Bear Market decline to begin "within the next 20 to 24 months". Does this mean you believe the present Bull Market is likely to continue until then?

A. Yes . . . approximately. My scientific and technical studies now point very strongly to an end of the recent 2-year area of backing and filling, and suggest that the entire period since late 1955 will become a long consolidatory base and springboard to a final, climactic bull move upward that will surpass in intensity any other stock market upsurge since this remarkable boom began in 1949. I believe it will eventually be labeled as the 3rd phase of this major bull market and thrust the Industrial Average upward another 200 to 250 points. This should take place within 20-24 months after the Industrial Average pushes through its 521.05 high. It should provide some incredible profit opportunities to investors who can keep a clear head—and who will buy more good and well-diversified stocks during all intermediate sell-offs that take place before this expected final upsurge. All sell-offs similar to those we've been experiencing over the past 2 years, and especially in the last few months should be used, as they have been by many far-sighted investors.

Q. But you said a moment ago that "Since 1921, primary Bull Trends have run only from 4 to 8 years." If this Bull Market began in 1949, wouldn't your forecast of a new and final 20 to 24 month upsurge upset this pattern by extending the present primary Bullish Trend to approximately 10 or 10½ years?

A. Yes. You're right. Your question points out precisely why the Dow Theory has provided us with such an incredibly effective and flexible technique for forecasting the prolongation of the present bull market. The reason is because the Dow Theory has its own built-in, complex system of checks and balances . . . it depends on no *single* measurement, but on *many*. Like the record of the Averages, the lengths of previous bull and bear market patterns are only valuable to us when studied primarily as an historical guide. Investors shouldn't forget that the Dow Theory is set up to forecast the future in the light of today's political, psychological,

and economic climate . . . not to dwell in the past. We should be guided, instead, by the sum total of *all* the measurements and modern improvements which are now at the disposal of present-day Dow Theorists. Those who depend on a single feature of the Theory such as the often deceptive pattern of the Averages, the length of former bear and bull market patterns alone . . . or who place undue importance on *any* individual technical study or single characteristic of the total Theory are destined to disappointment—and may be burned badly.

Q. Does this mean that you believe such historical features as the Dow-Jones Averages and the length of past market patterns are of little or no value under the modern interpretation of the Dow Theory?

A. Not at all. It's only when these features or any other individual market studies are given too much importance by themselves that the uninitiated investor stubs his toe or treads on dangerous ground. Over a period of years it has been possible to observe the habits of stocks, the trends under Dow's theory, the customs and tendencies of people buying and selling stocks, and the net results of traders and investors over long and short periods of time. These activities, when fitted into the total picture are tremendously important, often revealing, and sometimes startling.

Q. What are some of these modern improvements, and how can they be applied by investors who hope to increase their stock market profits?

A. Modern application of the Dow Theory tries to find methods of forecasting what the stock market will do through technical and economic research, rather than resorting to obsolete Dow Theory thinking that is based primarily on the past. Today seasoned Dow Theory practitioners are more interested in correlating political and economic developments with Dow's 3 trends, in selecting those individual stocks and procedures which will eliminate as much market risk as possible and in finding the most reliable and safest methods for capital gains and income from stocks. In other words an increasing amount of stress is being placed on long-term investment planning, in riding Dow's major or long-term bull trend all the way up, and in research designed to improve potentially profitable long-term procedures.

Q. Now, Mr. Schaefer, will you tell me what procedure today's Dow Theorist employs to discover exactly when a Bull Market is beginning . . . and how does he decide when to start buying and holding stocks?

A. It's difficult, of course, to predict exact lows or buying spots . . .

Q. But you predicted the Industrials would move from 270 to 522 about five years ago . . . that's pretty exact.

"...begin looking for the bottom...when the majority of investors and advisory services are bearish"

A. Well... when you come that close there's usually a fair degree of good fortune on your side. I'm satisfied to come within 20 to 30 points on my long term predictions. In answer to your question about when to begin buying, however, the modern school of Dow Theorists may approach this important problem in the following manner: We know that bear markets usually last from 3 to 5 years or so. After a bear market has run for a long time... say about 3 years or longer... it becomes reasonable to begin looking for the bottom. It is then time to seriously begin studying whether technical factors indicate the approach of a thoroughly sold-out condition. This is the period when most people who are scared the decline will continue have already liquidated their stocks or are happy to get out on any rally. This is also usually the point when the majority of investors and advisory services are bearish and most financial writers are preaching further gloom to the public. When this situation develops the Dow Theorist will correlate and adjust these technical conditions to the current economic and political factors which he knows. Next he will study the time element of the decline, and then he begins to compare all of this and other available information with the bottoms of other bear markets, before rendering his interpretations.

Q. Can you briefly tell me what these technical factors are... what investors should watch for so they may buy at the right time?

A. Briefly?

Q. As briefly as you can.

A. Well we watch to see whether large investment sources are beginning to come back into the market to buy high grade stocks. We try to catch other evidence of buying power as it begins to come in sight through seven carefully tested avenues of technical research—by the application of *Dow's 50% Concept*, the *Yield Cycle*, the *Short Interest-Volume Ratio*, the *Odd-Lot Index*, our *Consensus-Opinion Studies*, *Three-Phase Studies* and the *200-Day Investment Line*.

Q. That was brief all right, but I got lost somewhere around the beginning.

A. The Dow Theory, of course, isn't something that can be learned and applied in a few hours. It takes serious students years of research and experience to learn the most successful road to building up large profits by this method. Most investors keep in touch with the Dow Theory by following the market letters of seasoned professionals such as investment counselors and stock market advisors.

Q. Is there any source where investors can go to get information for themselves on the New Dow Theory?

A. May I get in a plug for my three Guide Books printed by the Dow Theory Trader publishing division?

Q. Yes. Go ahead.

A. Well... I originally prepared these books privately at the request of investors who wanted a thorough and up-to-date reference source containing all the latest revisions in Dow Theory thinking. There had not been a serious book written on the subject since the early "Thirties. I called the first book "*Technical Studies*" and it contains the results of all my research over a twenty-year period in condensed, easy-to-read form. It takes a six-year period in the stock market, from 1949 to 1955, and shows, step-by-step, how I arrived at my conclusions and forecasts... with the results plainly revealed so they can readily be followed by interested readers. This is the book that contains about 125 technical supplements taken directly from my market letters during that period.

My second study of the market deals with "*Investment Procedure*" and tells the story and results of the two \$50,000 Model Accounts which we started and have published each week, for everyone to see, since the middle of 1949. At that time, if you remember, most Dow Theorists and other advisory services were "running scared" of the market, but my technical studies revealed an unusual and startlingly different picture. To build much needed confidence in the boom that my research convinced me was near at hand, I decided to expose my complete record and recommendations, the 2 continuously-illustrated long-term model accounts and my suggested long-term procedure for these readers to examine each week. As a result all contemplated buying and selling advice has been given to investors before execution, so that they would know what we were going to do in *advance*—and in time to take advantage of each opportunity. This book, "*Investment Procedure*" discusses the procedure we have followed at different times in the years following 1949—and the reasons that helped to build these accounts from \$50,000 in each to a current value of \$232,217.94 in one, and \$152,485.44 in the other. These amounts represent a profit today of \$182,207.07, and \$102,482.71 respectively. The third book in the series is entitled "*Boom Predicted*" and contains a complete 74-page reissue of my weekly stock market analyses during the 8½ critical months from February 2 through October 12, 1957. This period includes the critical February and October 1957 lows and my letters reveal how the new Dow Theory and technical research were applied effectively while the market was "backing and filling" within 2 intermediate declines and building strength for what I believe will be the most

PROFITS SPEAK LOUDER THAN WORDS!

Claims are one thing—but the value of any advisory service lies in its profits! A unique and popular feature of Schaefer's weekly service is the performance record of his two continuously supervised model accounts (Investment and Speculative Grades). In addition Schaefer's investment procedure under the Dow Theory is fully outlined. The complete accounting below shows procedure from 1949 to date. Here is the actual GAIN records of these accounts (as of 10/4/57).

• NO. 1 MODEL INVESTMENT ACCOUNT	
(16 diversified investment-grade issues)	
Market Value: \$232,217.94	
INDICATED GAIN (profits and reinvested divs.)	\$182,207.07
• NO. 2 MODEL SPECULATIVE ACCOUNT	
(36 diversified growth-speculation issues)	
Market Value: \$152,485.44	
INDICATED GAIN (profits and reinvested divs.)	\$102,482.71

NOTE: Both funds were started in 1949 with \$50,000 capital each.

fantastic upsurge since this bull market began. Each book was written to show investors the actual new methods that had been used successfully time and time again since 1949—and each is designed to help and to guide investors in their market studies, procedure, and in predicting what the stock market will do... often many months in advance.

Q. Mr. Schaefer, two questions. You probably saw another recent article which says that you are "Generally regarded in financial circles as the only Dow Theorist who has remained steadfastly bullish since this Boom Market began in 1949." We talked to some people in Wall Street about your record, and while most confirmed this viewpoint, there were a few who seemed to believe that you are an incurable optimist who always appears to think that the market will go up.

A. Your first question is of course rhetorical, but in answer to your second... if the "few" who expressed a belief in my perpetual optimism were to read this inter-

EXCLUSIVE INTERVIEW

"... the most fantastic upsurge since this bull market began"

view carefully, perhaps they would change their opinions. What goes up, must of course come down. I simply believe that we have an unusually profitable and lively 20 to 24 month stretch ahead for this bull market before rigor mortis sets in.

Q. Mr. Schaefer, we only have two minutes left. Would you answer a few general questions—to give us an idea of your viewpoint on some different subjects?

A. Be glad to.

Q. How do you believe the Dow Theory stacks up in importance to other economic doctrines?

A. I believe the development of the new Dow Theory is the most important economic event since Adam Smith published his doctrine of *laissez faire* in the "Wealth of Nations" almost two centuries ago. The real test of a strong economic theory is whether it withstands the erosion of changing times. The very fact that the Dow

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Theory has grown and been improved with time, has been an effective and profitable market measurement for more than 60 years, and remains the best known forecasting technique today, speaks for itself in my opinion.

Q. As editor and publisher of one of the country's largest stock market advisory services, you are both a businessman and an economist. Is that right, Mr. Schaefer?

A. You are quite correct.

Q. Well . . . we have reviewed the different dates when your first nine Boom Market Studies were published. In comparing these dates with the market's action at the time, we discovered that most of these studies were issued while the market was down, usually in the middle of a sell-off. As a businessman, wouldn't you be exercising better business judgment . . . get more subscribers to take your advisory service . . . if you were to delay your purchasing recommendations until after the market was recovering and had regained some of its loss? Wouldn't people feel better and be more likely to believe you then?

A. As a businessman . . . yes. It would of course be more profitable to me personally to issue the Boom Forecasts when everyone else agreed and after the market was already advancing. In 1949 and 1953 many people did not believe me until a long time after the market recovered. Financially I'd probably be better off to wait for six months to a year from now to issue my newest Boom Study "Major Advance Looms." But as an economist and analyst—and because my clients depend upon this present-day interpretation of the Dow Theory during critical times, to help them pick the most profitable buying areas before the market moves up—all my investment selections and buying advice are "timed" to these technical research results instead. No responsible advisory service would consider any other alternative.

Q. Thank you Mr. Schaefer for your candid and concrete answers—and for this opportunity to get the story behind your forecasts. Just one more question.

A. Certainly.

Q. In 1953 you forecast that the Dow-Jones Industrial Average would rise from 270 to 522. Would you care to make a guess where the final peak will be?

A. A guess?

Q. Yes . . . only a guess.

A. All right . . . I'll say . . . oh about . . . 767.

INTERVIEWER'S SUMMARY

Colorful . . . resourceful . . . articulate, E. George Schaefer has sometimes been called "the stock market analysts' analyst". His cool, accurate appraisals in the heat of heavy stock market liquidation in 1949, 1953 and again this year, have saved profits, maintained dividend income and have helped build fortunes for a countless number of his clients. One subscriber wrote to say that he had a \$65,000 paper loss in his stocks when he first sought Schaefer's counsel in 1953's disillusioning market. Schaefer advised him to stay fully invested with the long-term, bull market trend for a possible \$600,000 gain . . . advice which later proved conservative, for within three years this subscriber revealed that his profit had reached more than \$730,000. Schaefer says his greatest concern today is for investors who have patiently waited out 7 intermediate-term declines during the 2-year consolidation underway since late 1955. He believes that unless they are guided objectively and unemotionally, many will become restless, sell too soon, and miss out on "the final, relentless 200 to 250 point 3rd-phase upsurge which my studies indicate is now ready to begin and will last from 20 to 24 months."

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ward. Perhaps some of these people have now learned their lesson about how costly it can be "to cruise with the crowd," but today many of these same people again appear to be replacing their judgment with emotion—and their securities with cash. Perhaps you were advised to liquidate at the beginning of the profitable First and Second Phases of this incredible Bull Market in 1949 and 1953. Possibly you are thinking of selling now. If so we urge you to hold off—to harness your emotions—at least until you have read Schaefer's exhaustive analysis of "the relentless and final 3rd Phase upsurge" which his research studies indicate will begin any day—and will carry the Dow-Jones Industrial Averages skyward to the vicinity of 725 to 775 within the next 20 to 24 months. Entitled "MAJOR ADVANCE LOOMS," this valuable forecast plus "22 GROWTH STOCKS FOR 1958" are only two of the important Boom Reports being sent FREE to new trial subscribers under the amazing introductory offer.

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What Third Quarter Earnings Reveal

(Continued from page 134)

despite the abundance of paper and paperboard, prices for the most part have been maintained and in some instances nominally increased.

Paper and paperboard usage has not fallen off from 1956, but the industry has been unable to sell all the additional productive capacity added in recent years.

The pulp, paper and board industry operated at about 3% lower production levels during the first half of 1957, as compared with the first half of 1956, but better than 6% above the 1955 level. In 1957, paper and paperboard production will undoubtedly be the second highest on record—below the record 31.3 million tons achieved last year but above the 1955 tonnage of 30.1 million. It is expected that the usual fall pickup in business will result in firmer operations for the balance of the year, although earnings for the industry will be some 10% to 12% below last year's levels.

Bank Earnings Remain Strong

Bank stocks, one of the first groups to report earnings fully

in the third quarter, continue to show the good earnings that have characterized the banking institutions throughout this year. Action of the stocks in the market has been no better than other groups, but there seems no doubt that with money still tight and interest rates high, earnings will continue to flourish well into next year. Bank borrowings for business purposes declined in the latter part of this year, but with consumer credit, long term corporate financing and Government borrowings remaining at high levels, bank earnings should not be seriously affected.

For the major New York banks the third quarter witnessed further improvement over last year's results.

The Chase Manhattan Bank, on the basis of its present capitalization, raised its earnings to \$3.09 per share in the first nine months of the year, compared with \$2.71 a share in the same period a year ago. Deposits as of September 30th, 1957, stood at \$6.7 billion, giving the Chase a substantial lead over its closest New York competitor, the First National City Bank.

First National City, however, still leads the field in total assets, leading the Chase by almost \$20 million in this respect. Again on the favorable comparative side, First National City raised its earnings over 13% in the third quarter to \$14.6 million against \$12.9 million last year and showed \$3.61 per share against \$3.21 for the first nine months of 1956.

The Chemical Corn Exchange Bank also showed a healthy 12.9% increase over last year's third quarter results and Guaranty Trust Company reported a third quarter increase of almost 12% over the same period last year.

Part two of this report on third quarter earnings will appear in the November 9th issue of THE MAGAZINE OF WALL STREET. At that time other industries will be covered in addition to specific comments on many important companies. —END

The Trend of Events

(Continued from page 123)
ago the Hoover Commission esti-

mated the total at some \$13 billion.

Nor is this the only method the Treasury has for borrowing without calling it borrowing—or for piercing the debt limit under another name. In 1953 the Treasury monetized some of its sterilized gold reserves, but \$490 million still rests in the vaults. If need be, this gold can be turned over to the Federal Reserve and used to reduce the Government's debt to that institution—in effect, providing an additional \$490 million in borrowing power within the debt limit. The inflationary nature of monetizing gold makes this expedient unlikely in the current situation, but it is nevertheless a possibility that must be considered, especially if Federal tax receipts should fall short of their expected levels.

Thus, we have before us one more example of the Government's willingness to turn again and again to expedients designed to meet the needs of the moment. In the process the Administration is laying the groundwork for financial wrangling with an already touchy Congress. Congress is exceedingly jealous of its own prerogatives, and when it finds the Administration using public corporations, chartered for specific purposes, in a manner that was never intended, it will not be easily mollified. Moreover, since the purpose of an established debt limit has been to place a check-rein on Government spending and prevent a runaway inflation, subterfuge can only create additional confusion for business and the value of the dollar. —END

Market Reaching Realistic Phase

(Continued from page 127)

and go to excess, as do the major advances.

Falling prices recently forced some selling due to impairment of 70% margins. More of it, though not too big a factor, is possible. Some increase in foreign selling is indicated. More tax selling is still to come. How strong are the nerves of inexperienced investors who for some years have mostly known big bull markets and moderate sell-offs? Cash looks good to us. Few stocks yet look attractive.—Monday, October 21. —END

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